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With The Editors

Unsatisfying Peaks

IT WAS a peculiar sort of year—1939—in which some really impressive progress in many lines brought little sense of achievement. The dozens of new records that were set up might have renewed our confidence and our hopes that the doubtful decade was indeed past. We might now be patronizing the 1929 peaks in industry as good marks while they lasted but hardly in a class with what the '40s would soon bring. Needless to say, we should be chancing the fall that follows such pride, but it would be the understandable and human way to gloat over recent accomplishments in industry. Instead, the part of the country that fully realizes the ground that has been gained in the last twelve months spends most of its time with fingers crossed, quite obviously hoping that no one will jinx the trend by emphasizing it too loudly before its final destination becomes apparent.

Well, here are a few things that can't be taken away from 1939, no matter what is to come next—

The increase for the year in total industrial production was 22 per cent. In automobile output it was 40 per cent, in steel ingots 65 per cent and in pig iron 70 per cent. Building construction had a good year, but it was up only a tiny 8 per cent, hardly worth mentioning in such fast moving company as steel.

On the consumption side, wool gained 43 per cent, gasoline 15 per cent, lumber about the same and cotton 23 per cent. Mail order sales were up to 19 per cent, breaking all previous marks, and the rise of 11 per cent in electric power consumption also set a new all-time record.

We could fill half a column or more with brand new records made in the past year and they wouldn't be confined to such obvious ones as aircraft production, bank deposits, auto registrations and national debt. They would include sales of two very important industrial metals—nickel and aluminum—domestic consumption for certain periods of a basic necessity like cotton, and steel production in the fourth quarter. But the truly record-breaking performance is the failure of these records to create their normal enthusiasm for the future. However one interprets the net loss in stock prices during the year, it must be admitted that the last of the '30s was the queerest of them all.

*** * * COMING IMPORTANT FEATURES * * ***

Annual Dividend Forecast for 1940

January 27 Issue—Aircraft, Rails, Utilities, Equipments

February 10 Issue—Motors, Chemicals, Foods, Steels, Tobaccos, Movies

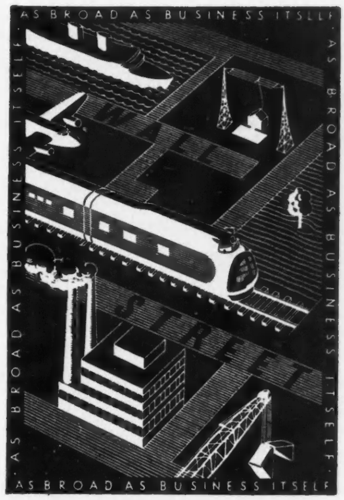
February 24 Issue—Building, Metals, Oil, Merchandising

Westinghouse Photo

Heavy industry rumbles ponderously along in its unaccustomed place at the forefront of business recovery. Holidays have distorted operating rates in recent weeks, but now the testing period is here, with the question—can the pace be maintained?

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



Questions of the Day

Will ending of the trade treaty with Japan on the twenty-sixth of this month mark the beginning of commercial hostilities, or will we negotiate a new and still friendly treaty?

For the present, neither. The Administration is content to sit back, holding a very useful club of postponed action, and leave the next move to Japan. To impose immediate obstacles to trade between the two countries would invite retaliation; and there is no desire to arouse public emotions on what should remain a secondary foreign issue. Congress, however, is being put under pressure from industries which feel themselves injured by Japanese competition, the object being a system of import quotas or shipping restrictions or both. Should some legislative action result, there is no telling what the final outcome would be, since the current Japanese leadership is not noted for its meekness. Once begun, the process of alternating reprisals is difficult to stop.

Have industrial earnings—and profit margins—been keeping pace with the pickup in business volume?

In a general way, they have. Where specific estimates of fourth quarter results are possible they show some remarkable gains in earning power, far above any demands set merely by increased activity, but it is also possible to make out a case for the other side by picking companies very carefully. As a matter of fact, the figures on any sufficiently large group of industrial corporation earnings for the last quarter of 1939 appear certain to show one thing: if the same profit margins and volume could be maintained for an entire year, earnings would break all records including that of 1929. That this should be true is one of the perennial miracles performed by industry for a usually unappreciative audience. Taxes go up, wages go up, prices in most cases come down, but the "profitless prosperity" threat always recedes into the future. And so far as can be determined today, it is just about as far away as it was in 1935.

Again the question of prime concern to the business world—are inventories mounting with dangerous rapidity?

Inventory size, of course, means little without knowing the rate of operations. Active business can safely support an inventory structure that would be disastrous to an economy in the doldrums. And in considering the rate of output, one inevitably works back to the question of the pace at which goods are moving into actual consumption. An unsound inventory situation is not an isolated and absolute fact; it is a relationship between stocks on hand and future sales, with sales by far the more important factor. The debacle in 1937 was sufficient illustration of this point, just as it is still one of the main causes for anxiety over the current state of inventories. *Iron Age,* for exeample, has made a survey

of steel supplies in users' hands in late November and early December. It finds that fifteen groups of manufacturers, from agricultural equipment to washing machines, had 74 days of steel supply on hand at current rates of consumption against 77 days' supply a year earlier and 96 days' toward the end of 1937. These manufacturers further reported that their projected first quarter operations would fully justify year-end inventory positions. But again we come back to the plain fact that any interpretation of supplies on hand can be proven wrong by a slump in sales. Future consumption is the key to this problem.

The Trend of Events

Lull Before Storm . . . On the eastern front Russia has stopped slugging and started sparring. All is quiet on the western front. Days have passed without spectacular action on the seas or in the air by either the Germans or the Allies. In this relative quiet there is, unfortunately, no good omen. Sometimes silence has the most ominous of all sounds.

For a time back in September there was a fleeting psychological release from tension. War had become a fact, climaxing the long period of uncertainty in which we waited and speculated on the crises that Hitler would manufacture in spring or autumn. Now we find ourselves in the grip of an even more intolerable tension. Will the spring bring a desperate Nazi gamble? Will the long planned mass air attack on England be attempted? Will Hitler launch a combined attack with all the force at his command on land, in the air, on the seas? Or will the German strategy be to continue holding the Allies at the Maginot line, while attempting the lengthy task of organizing a real source of supply from Russia?

We can not reason out the answers. Neither do we know whether increasing Allied aid to Finland will drive Germany into genuine military cooperation with Russia and make peace-loving Scandinavia a battle field with the Allies grappling to the death against both Germany and Russia. Should the latter happen could Italy remain on the sidelines? What opportunity would Japan jump at in the Far East? What would be the psychological reaction of the American public?

Although we have moved only a very short distance into 1940, we can see that it is going to be a crucial test for many nations. With the fate of whole peoples in the balance, it is scarcely surprising that an atmosphere of sober doubt surrounds the current security markets.

A Good Start . . . The budget for the next fiscal year presented to Congress by the President is a good start toward financial sanity at Washington. It estimates a deficit of $2,176,000,000 for the 1940-1941 year, as compared with an estimated deficit of $3,933,000,000 for the 1939-1940 period. To bring about the reduction of $1,757,000,000 Mr. Roosevelt allows for a decrease of $675,000,000 in expenditures, an increase of $382,000,000 in tax revenues and transfer back to the Treasury of $700,000,000 of unused funds of Federal corporations. The latter, of course, is a non-recurring item and its recovery is merely bookkeeping. Without it the cut in the deficit would be $1,057,000,000, made up of two parts reduced spending and one part higher revenues.

Unfortunately, under the conditions prevailing in recent years, January budget estimates can not be taken too seriously. On the President's side there is a strong inducement to make the picture as bright as possible, and usually expenditures have been underestimated - resulting in a demand for heavy "deficiency appropriations" months later. In all fairness, however, it must be noted that Congress more often than not has added to the total spending proposed by Mr. Roosevelt rather than subtracted from it.

Indeed, this year more than usual, what the budget means depends almost entirely on what Congress does. The public demand for economy is evidently growing stronger and there is tenative evidence that the special pressure groups are a bit less clamorous than in most of the recent years. Thus there is a reasonable chance that the 1940-1941 spending will be nearer $8,500,000,000 than $9,000,000,000. That would be only a small dent in a very big budget but much better than no dent at all.

A Word For The Banker . . . Those who clamor for competitive bidding by investment bankers for new issues of corporate securities—and who deplore the fact that the country's most efficient financing machinery happens to be located in New York City— apparently have little understanding of the actual processes involved in distributing a new issue to the ultimate investors Those processes include the following:

1. Origination of the issue, which involves determining the amount, the type of the securities, their terms and their public offering price.
2. Underwriting, which assures the corporation of a specified total of funds regardless of how long ultimate distribution may take.
3. Distribution through sales to individual and institutional investors.
4. Carrying the issue, often with the aid of bank credit, pending distribution.
5. Stabilization of the market during the period of distribution.

In short the function requires specialized knowledge, trained judgement and large resources. It is by no means free of risk to the bankers, and it has yet to be demonstrated that the profits earned are dispropor-

tionate either to the risk taken or the service performed. The chief defect of competitive bidding is that it would eliminate the investment banker from the originating phase of the financing. Few corporations are equipped to determine the amount, characteristics and terms of a new issue without facing risk of serious mistakes. Although it must be safeguarded from abuse, the link between investment banker, corporation and investor is well nigh indispensable.

Consumer Demand . . . The spectacular rise in industrial production during the past several months has taken the spotlight, but equally significant has been the much less widely publicized increase in public purchasing power and consumer demand. At the end of 1939 composite measures of consumer demand for general merchandise showed a gain of approximately 12 per cent for the year at a new all-time high level approximately 8 per cent above the best reached in the 1936-1937 recovery cycle. At the turn of the year demand for automobiles and other consumers' durable goods was also beginning to challenge the 1936-1937 figures.

In the four months September-December the Department of Labor's index of payrolls advanced 12 per cent. Since there was no significant increase in the cost of living during this period, or at any time in 1939, our economic gains have found maximum reflection in consumer purchasing power.

As always in a period of sharply rising public income, buying power is now being increasingly supplemented by resort to installment purchasing. According to estimates of the Department of Commerce, installment sales in 1939 were 20 per cent above 1938 and the expansion was sharply accelerated during the fourth quarter. For the first quarter of this year credit men anticipate installment sales around 25 per cent more than a year ago. Like "inventory profits," this is a dubious blessing. It tends to exaggerate an upward business cycle but to have the opposite effect when numbers of people pull in their belts in a poor year to make good installment debt contracted before things took a turn for the worse.

New Inventory Method . . . Recent issuance by the Treasury of regulations defining certain provisions of the 1939 Revenue Act will in time be followed by adoption of the "last-in-first-out" method of inventory accounting by many corporations whose profits and losses in the past have been exaggerated by fluctuations in the prices of the commodities they process or produce.

It is to be doubted that any considerable number of the forthcoming 1939 earnings reports will reflect application of this technique because the law requires that reports to stockholders be on the same inventory accounting basis as reports for tax purposes, and it is an open question whether companies which issued 1939 interim reports on the old basis can or will adopt the new method in year-end statements. It will undoubtedly be widely applied to 1940 accounting and as a consequence we shall hereafter hear much less market discussion of "inventory profits" or "inventory losses."

The method itself is, of course, not new. Something like it has long been used in the tobacco industry, with the agreement of the Treasury. Certain individual companies have heretofore used it or variations of it—including American Smelting, National Lead and American Can—but without any tax benefit therefrom because the general Treasury rule heretofore was first-in-first-out. With either method now permissive, corporations can take their choice and in many instances reduce tax liability by the last-in-first-out method.

The change will be especially advantageous to companies which at all times have to carry on hand large inventories of commodities which are subject to volatile fluctuation in market value. Among the many such companies are those producing or processing non-ferrous metals, rubber, cocoa, leather and hides, sugar, and textiles.

Diminishing Returns . . . A few months ago the fiscal authorities of the State of New York calculated that the State's budget would be in balance this year—not because outgo had been reduced but because it was expected tax revenues would increase. Now it appears that the return from certain taxes was over-estimated, especially in the case of the stock transfer tax and the inheritance tax. The plain truth of the matter is that it is beginning to be demonstrated that some taxes have reached the point of diminishing returns. It is high time public officials awakened to that hard fact.

Taxation of inheritances is an irregular and uncertain source of revenue, capable of being swollen in some one year by the death of a single wealthy individual and of falling sharply the following year. As a long term matter heavy taxes on large inheritances are self-defeating to the extent that they break up large fortunes. As for the stock transfer tax, we would only observe that we have yet to hear the Governor of the State of New York say one word in defense of Wall Street, where both Federal and State policies have slowed the normal operations of the nation's financial machinery and where, as a consequence of financial inactivity, many thousands of people have lost their jobs.

In New York, as well as in many other states, public spending and taxation have reached the danger point. It would be hard to conceive of new forms of taxation that have been overlooked and equally hard to conceive of the tax-payers accepting any important rise in existing taxes. If the political spenders have at last scraped the bottom of the till perhaps they will begin to cut the cloth to the public purse.

Decisive Market Change Near?

We believe the uncertainties in the nearby outlook justify the postponement of speculative and semi-speculative purchases, reduction of current holdings of other than strict investment character and the maintenance of a conservative liquidity.

BY A. T. MILLER

HAVING observed the year-end tradition with a modest rally, the market at this writing has given up half of the post-Christmas gain and stands near the mid-way mark in the 10-point trading range which has been trying the patience of traders and investors alike for many weeks. It is also about mid-way between the highest and lowest prices of the past five years and from that perspective stocks are neither very cheap nor very dear.

If the moderately improved performance of late December and early January is to broaden into an advance of any real significance there would seem to be little excuse for much further delay. The nearby resistance level is 153, Dow-Jones, just above the closing high of January 3. Topping that level, the market would have ahead of it a more formidable test at 155-156 where previous efforts have failed.

The most commonly heard argument in behalf of a higher market is that stocks are underpriced on current corporate earnings, and that the business volume on which earning power chiefly depends will be maintained at a favorable first quarter average despite some probable down turn in the period's trend. We are not sure that this argument is strong enough.

It is no secret that business activity has reached an exceptionally high level and that earnings in most instances are proportionally favorable. This good news has been out for some time and the market has had many weeks in which to translate it into higher equity values. Its persistent inability to do so is disquieting enough to dictate caution in appraising the near-term potentialities. To say the least, the burden of proof is increasingly on the bull side at this season.

Meanwhile a brief look back at the recent record may be illuminating. In 1939 the Federal Reserve Board index of industrial production closed the year at or near a new all-time high and this publication's adjusted index of per capita business activity duplicated its 1937 high —but the volume of trading on the Stock Exchange was the lowest in sixteen years and the market as a whole, measured by our weekly index of 316 issues, declined 11 per cent for the year. Of all the records made by the last of the notorious '30's, this one is the most curious and the most provocative of thought.

Evidently the grave uncertainties of the war, superimposed on the long established New Deal checks on speculative and investment initiative, have produced an apathy which, in relation to business volume, is probably the most extreme we have ever known.

One is forced to wonder what it would take to launch this market into a sustained rise of important proportions during the weeks just ahead. It is difficult to believe that the business trend can provide a stimulus more powerful than that which the market has for some time been ignoring. In the realm of sheer conjecture there are such possibilities as a major political news event of bullish import or a happy accident in Europe—but whether any fortuitous, external help for the market will come through is mere guesswork.

One would normally expect a market to rise in anticipation of a business recovery or to keep in fairly close step with such a recovery as it proceeds. It will be a topsy-turvy world, indeed, if the market can either discount the same news twice or get steamed up about the business prospect only after something approximating a business top has been attained.

We can never forget that just as there is a most strange war going on, so is it a strange market with which we are dealing and the two are beyond doubt related. During the past two years there has seldom been any considerable period of time when the market was not in the grip of European developments or potentialities. Frequently moves up or down have either been caused by or accentuated by European factors.

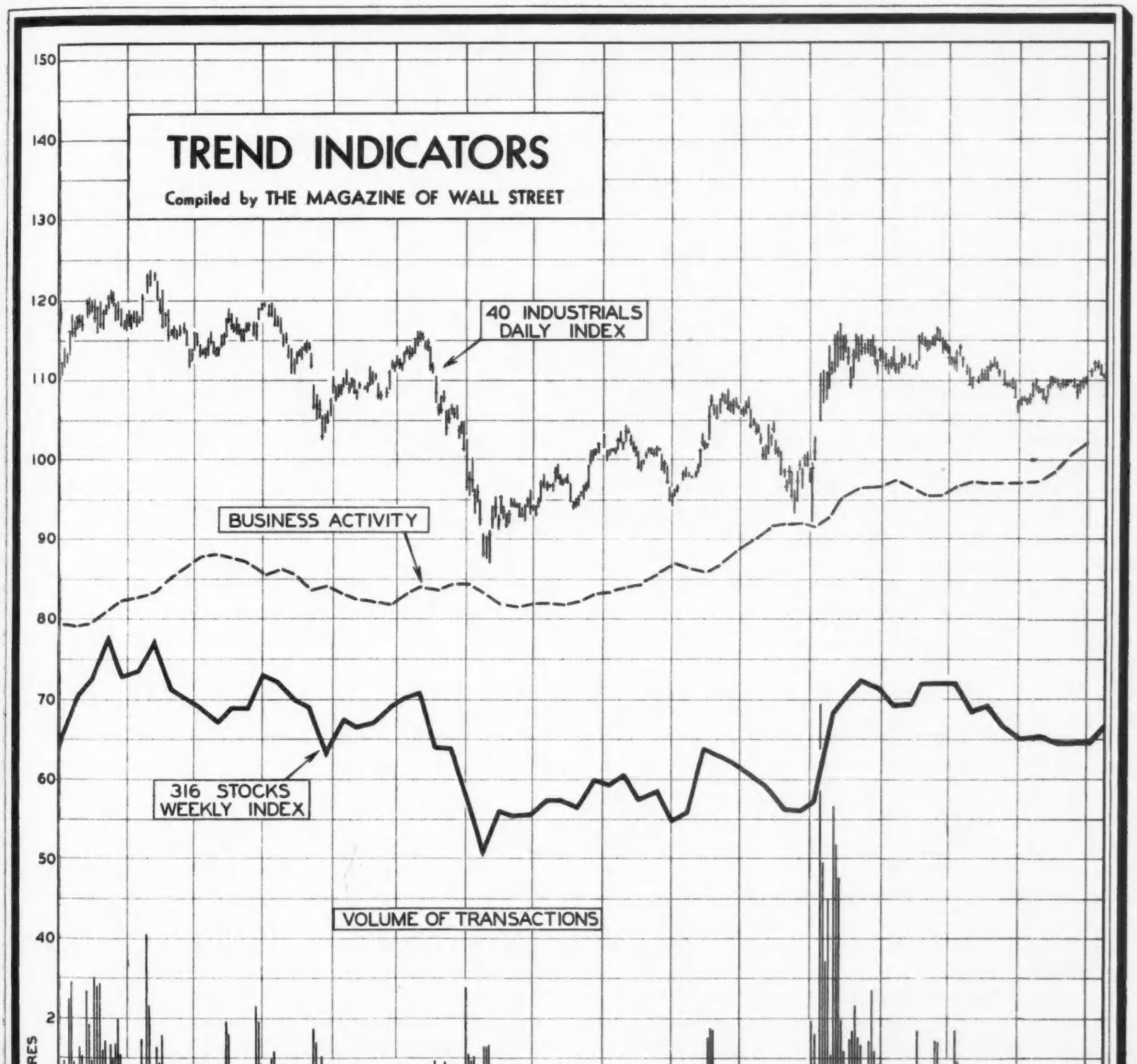
What will happen in Europe this spring is the most dynamic of the uncertainties confronting us; and this uncertainty ties in with and deepens the two chief domestic uncertainties: (1) the course of business after the first quarter, (2) the shape and indicated outcome of the 1940 Presidential campaign. It is possible that an intensification or spread of the war would be interpreted by the market as bullish—depending importantly on the technical position at the time—but from the

present limited perspective we would not take this for granted. On the contrary, we think the most bullish of all developments would be peace—peace early enough to permit completion of any needed market and business readjustments within the first half of this year, thereby letting us focus badly needed attention on our own domestic problems.

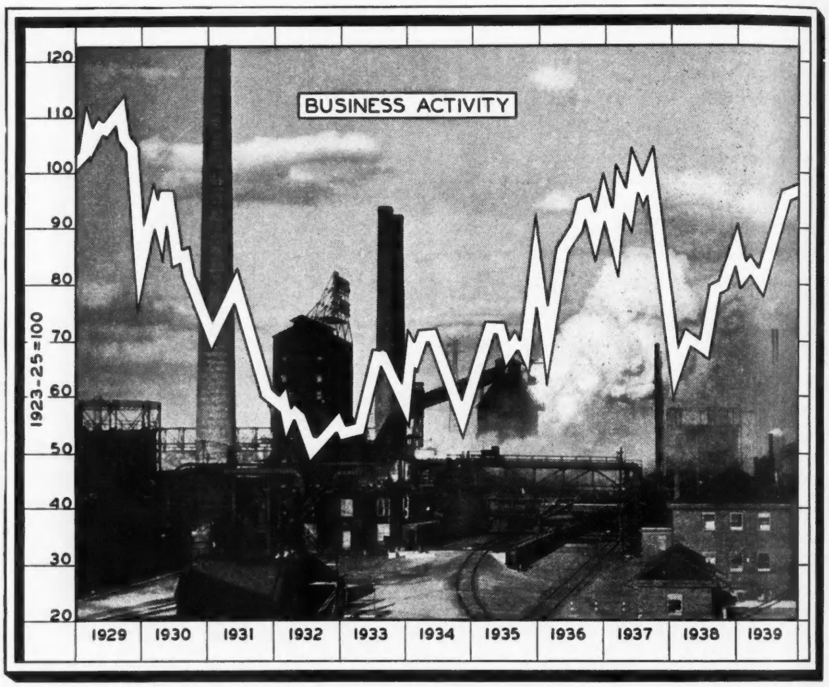
In conclusion let us briefly examine the question: How vulnerable is the market? Since it has been so cautious in its appraisal of the business position, might it not withstand some degree of business reaction without important decline? We see no percentage in being cocksure about this. It has been amply demonstrated that present day markets can slide into a decline well worth avoiding on a notably light volume of selling, once demand is significantly reduced. In the forepart of 1939 the Reserve Board index reacted from 104 to 92. This relatively moderate business set-back, plus frightening European factors, lowered the Dow-Jones industrial index from above 150 to a low of approximately 121.

We are not predicting a reaction of similar scope. In fact, we are not predicting anything. Our position, in a nutshell, is that until the shape of things to come is more clearly visible the soundest policy is to defer all new purchases of speculative or semi-speculative character, to reduce current speculative and speculative-investment holdings and to maintain a conservative liquidity.

—Monday, January 8.



Examining the Base for Sustained 1940 Recovery



BY GEORGE W. MATHIS

We have just come through a decade which began with the biggest of all stock market crashes and ended with the birth of another European war. In these ten years we have had all varieties of busines weather, including some more vile than we thought possible; and nothing has stayed put for any length of time.

It has been a somewhat breath-taking economic roller-coaster ride, with the downward plunges and upward sweeps quite evidently getting faster. That plunge late in 1937—only a bit over two years ago and still a terrifying memory—was the fastest on record. And the rise since the war began in early September has been positively dizzying.

Taking this psychological background into account, it is not surprising that the present business recovery is being viewed with doubt and suspicion by most business men, by investors, by Government officials, by business analysts. A dog that has spent years getting used to disappointments and double-crosses is very reluctant to believe his luck when an occasional friendly hand offers food.

And so, chiefly because business is much better, we are tiptoeing around, warning each other to be careful. Once we took it for granted not only that business was good but that it would permanently stay good. That was in the days of the New Era; the Victory Over the Business Cycle; the Chicken in Every Pot; the Two Cars in Every Garage, etc. Now, after some years of experience with the New Deal, the More Abundant Life, Security for Everybody and the Redistribution of Everything, we are going in in a big way for the opposite illusion—the illusion that anything more than a short-lived business recovery would be abnormal and therefore improbable.

Government officials are shaking their heads, although not actively fighting the economic expansion as they so successfully did in 1936-1937. Secretary of Commerce Hopkins warns that there has been some accumulation of inventories and that industry's increased production of goods "is not balanced by a correspondingly high rate of utilization of these goods."

Of course, this recovery cycle will not last forever, no matter how propitious the underlying factors might be for 1940 or for a considerable time after 1940 has become history. Also it could be cut short or severely interrupted by deflationary developments outside of the economic structure—for example, an early end of the war, a bad Federal tax law, a major additional decline in the pound sterling without offsetting factors.

But the warnings that we are hearing do not relate to these unpredictable contingencies. They relate to the internal soundness or lack of soundness of the present business situation—most generally "rising inventories" and "production outrunning consumption."

In the writer's view, no significant maladjustments of inventories, prices or operating costs have developed and the situation is much sounder than skeptics imagine. If 1940 fails to maintain an average business activity within

striking distance of the average of the fourth quarter of 1939, the trouble is far more likely to be due to new deflationary factors not now foreseeable than to excesses in the position now existing.

A major increase in general business activity necessarily requires a general expansion of inventories. Thus far there is absolutely no reliable evidence that inventories have increased by a degree importantly disproportionate to increased consuming demand. This is not to say that inventories can not at some future time prove to be excessive. If something happens which sharply reduces sales, almost any general level of inventory immediately becomes "excessive." But in that case the primary trouble is not inventories but the nosedive in sales.

Durable Goods Activity

The spectacular business developments since September have tended in many minds to obscure the fact that a major recovery cycle was clearly and firmly established in this country for many months before the war was anything but a threat in the offing; and that from the inception of this cycle in the summer of 1938 the most significant thing was the relatively prompt participation of durable goods.

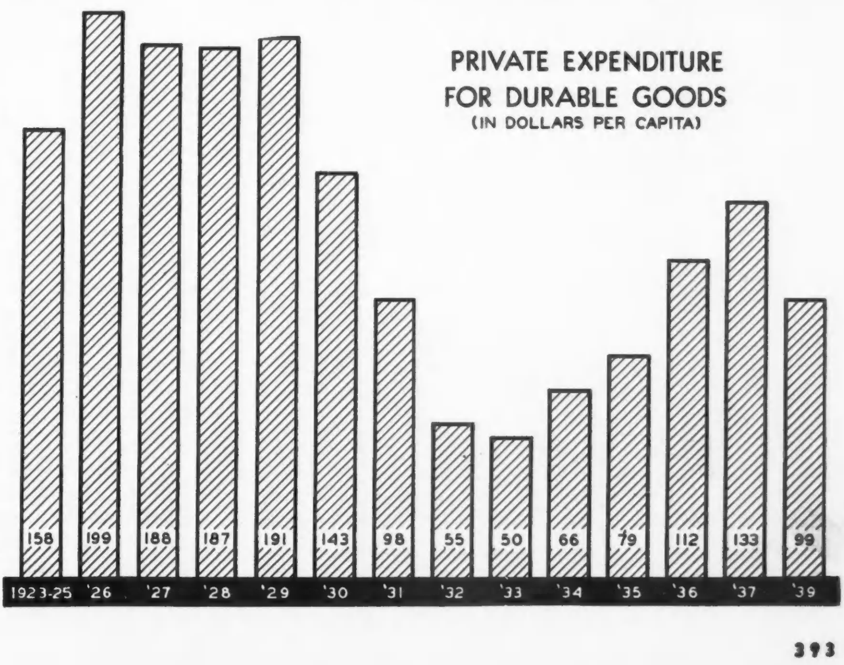
For example, using Federal Reserve Bank of New York indexes, from June, 1938, through December of that year, or six months, output of durable goods increased from 43 per cent of estimated long term trend to 71 per cent. The nearest similar performance in the preceding up cycle was stretched over sixteen months from November, 1934, through March, 1936. Despite recession from the December, 1938, top, average output of durable goods in the first half of 1939 was only some 6 per cent under the first half of 1936. The pace in the second half year approximated the average for the full year 1936, while output in the fourth quarter was about equal to the fourth quarter of 1936 and, with that exception, topped any fourth quarter back to 1929.

In the very fact that the present advanced level of industrial production has been achieved there is high hope for the longer future—considering the conditions under which it was achieved. Consumer demand for the products of industry has reached an all-time high in recent weeks and we are operating not far from the capacity of our industrial plant—yet no important volume of European war orders has been received or is in sight, what the consequences of the war will be upon the world economy and world civilization is a matter of the gravest doubt and uncertainty, the deflationary excesses of New Deal reforms have been only partly corrected, Federal deficit spending and taxation continue to put a damper on productive, long term investment, business men and investors still lack convincing assurance that the next election will prove a mandate for pro-business, middle-of-the-road government.

There are, of course, inflationary elements present and they may become very dangerous—but again let us remind ourselves that a vigorous recovery, paced by the durable goods industries, was clearly in progress, without any stimulus of inflationary inventory expansion, before the war became a factor. Therefore, we can arrive at the significant conclusion that we have again seen a demonstration of the inherent tendency of private enterprise to push operations up toward capacity and then to expand capacity. It was precisely this tendency which, despite recurrent depressions, took us to new peaks of material well-being from decade to decade over many generations prior to the 1929 crash.

Our return to the up-and-down highway of long term economic expansion may not be fully made in 1940. There may be additional discouragements and repressions arising wholly outside of the internal organization of our competitive, private economy—but as a people we are fed up with the isms of the extreme Left and the extreme Right, we have become just as suspicious of arbitrary power when it is in the hands of the Government or of labor unions as when it was in the hands of "Economic Royalists" or supposed to be, and in the difficult decade just ended we have learned a great deal about economic processes. The times make the politicians. It seems unlikely that we will tolerate another decade of economic frustration.

The potentiality for economic expansion in this country is enormous, prophets of "stagnation because of economic maturity" to the contrary notwithstanding. To hold that our living standard has reached its maximum while more than 40 per cent of the families in this country have annual incomes less than $1,000 and while 79 per cent of all families have incomes under $2,000 is to confess that we do not know how to use the world's most abundant pool of productive resources—plentiful raw materials, efficient factories, intelligent and energetic

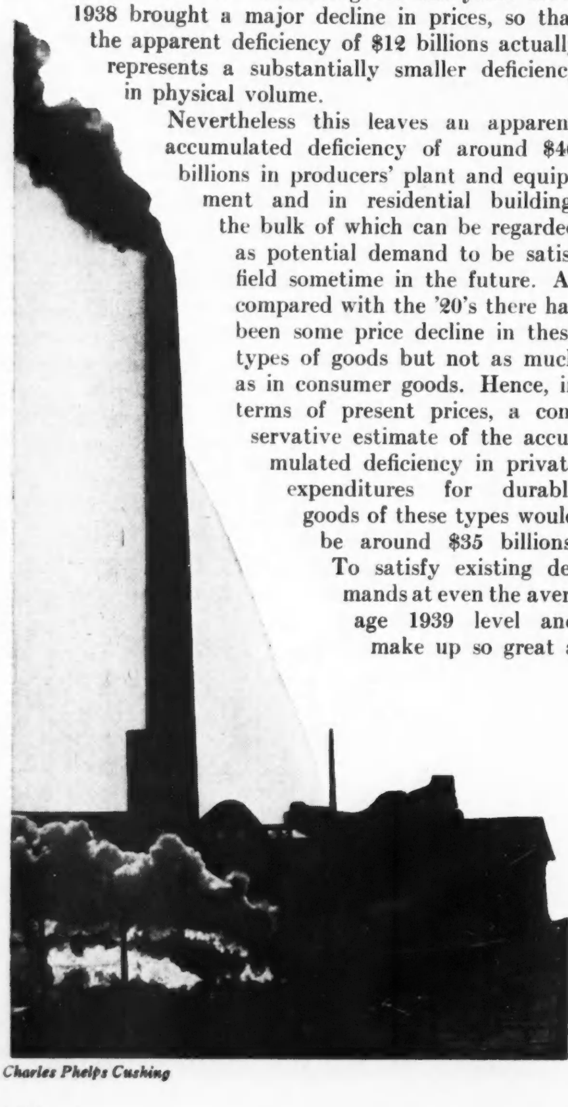


labor, resourceful technicians and managers, excellent transportation, billions of idle capital.

As shown by careful estimates of the Federal Reserve Board, the past decade's accumulated deficiency in total private expenditures for durable goods has been truly staggering—much larger than most previous estimates. Over the period since 1925, taking private expenditures for durable goods for the years 1923-1925 as a base for comparison, the net deficiency was approximately $58 billions. This is arrived at by taking the total deficiency of the years 1930-1938 and subtracting the total excess of the years 1926-1929.

Approximately $12 billions of this deficiency was accounted for by passenger automobiles and household goods. As potential future business this can be largely eliminated from our picture. Some of it, especially some types of household goods, probably does represent deferred demand which would become effective in a sustained period of favorable public purchasing power and confidence. On the other hand, an automobile that was not bought in 1932 can hardly be added to the backlog of potential demand in 1940 or later. Moreover, in the field of consumers' durable goods the years 1936-1938 brought a major decline in prices, so that the apparent deficiency of $12 billions actually represents a substantially smaller deficiency in physical volume.

Nevertheless this leaves an apparent accumulated deficiency of around $46 billions in producers' plant and equipment and in residential building, the bulk of which can be regarded as potential demand to be satisfield sometime in the future. As compared with the '20's there has been some price decline in these types of goods but not as much as in consumer goods. Hence, in terms of present prices, a conservative estimate of the accumulated deficiency in private expenditures for durable goods of these types would be around $35 billions. To satisfy existing demands at even the average 1939 level and make up so great a deficiency would, of course, require an industrial production far above that of 1929 and spread over many years. The writer is not here predicting that the deficiency will be made up, but merely citing the potentiality.



Charles Phelps Cushing

Such figures are, of course, generalities. We can come closer to practical cases, however, by comparing private expenditures for durable goods in the recovery years 1936-1937 with those of the 1923-1925 period and noting the wide variations between different types of expenditure.

For example, expenditures for producers' equipment in 1936-1937 averaged $4.7 billions a year and actually topped similar expenditures of 1923-1925, the latter averaging $4.5 billions. With adjustments for population growth and lower prices about offsetting each other, the figures roughly approximate the difference in physical volume. A similarly favorable comparison was made by expenditures for passenger automobiles and household equipment, these totals amounting, respectively to average of $7.38 billions in 1936-1937 and $7.40 billions in 1923-1925. Here price decline more than balances per capita adjustment, and physical volume was substantially greater than in 1923-1925.

The most significant unfavorable difference between 1936-1937 and 1923-1925 was the great lag in construction. Thus, 1936-1937 average annual expenditures on producers' plant were $1.9 billions against $3.4 billions in 1923-1925, while consumer expenditures for new housing averaged $1.5 billions in 1936-1937 against $4.7 in 1923-1925. Combining both types of expenditures for new building, the gap was $4.6 billions a year or considerably more than the substitute of Federal public works and deficit spending. On a per capita basis, the showing was even worse—for the deflation of building costs has been wholly inadequate to the needs of a major recovery in this field. Moreover, in two major industries—railroads and electric utilities—the 1936-1937 expenditures for both plant and equipment were far under 1923-1925, averaging respectively 44 per cent and 42 per cent of the 1923-1925 level.

Now so far as the business cycle is concerned, expenditures for durable goods are the heart of the problem. Therefore, when we attempt the difficult task of appraising the outlook for a sustained high level of business in 1940 we are, in fact, appraising the outlook for durable goods. What is it? Answer: Favorable for the first quarter; probably still favorable, but a bit less so, for the second quarter; absolutely unpredictable for the second half of the year.

The size of order backlogs in the durable goods industries, the level and trend of building activity, the moderately favorable current level of new orders for capital goods and the high and still rising demand for consumers' durable goods all combine to indicate a favorable *average* level of activity for some months to come, although the trend of the adjusted production index will probably be moderately downward into the second quarter and perhaps through the second quarter. Beyond that the hazards of business forecast center in the unpredictable spring and summer contingencies relating, respectively, to the war and our domestic political campaign.

There are inflationary possibilities of large scale war orders if the hostilities are intensified in spring and summer. This could boost *(Please turn to page 445)*

1940 Ten Market Leaders

Stocks Which Should Make Large Percentage Gains

Selected by THE MAGAZINE OF WALL STREET STAFF

WE PRESENT herewith and briefly analyze a group of common stocks which in our opinion offer promise of pacing the 1940 market from the standpoint of percentage price appreciation.

The issues have been selected with particular reference to industrial prospects, with greater emphasis on potential expansion of earnings than on the earnings records of the past year.

The group as a whole represents a stake in those industries which we believe offer greatest potentiality for additional 1940 gain in volume and profits. While we view the major market trend as upward, we do not counsel immediate purchase of these stocks. The real trend of a new year can seldom be assumed with safety at its start; and while this is a season of high hopes it is also one with serious underlying perplexities. Not infrequently it is late winter or spring before the pattern of things to come takes recognizable shape. This January that pattern is especially obscure.

At such time that we believe these stocks should be purchased—basing the decision on economic, political and technical indications as they develop—we shall so state in the market article by A. T. Miller, which appears in each issue.

	Recent Price		Recent Price
Chrysler	88	**North American Aviation**	25
Fairbanks, Morse	39	**Continental Oil**	25
Celanese	28	**Vanadium Corporation**	33
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Baldwin Locomotive	17	**International Harvester**	61

Chrysler

In buying Chrysler shares the problem facing the speculative-investor is solely one of timing. The company's financial position is secure, its management is first rate and its competitive position in the motor industry is both strong and improving. Due to the pronounced cyclical characteristics attaching to demand for automobiles and trucks, there are wide fluctuations in earnings, dividends and market valuation; but the vitality of the industry and the quality of the company are such as to assure a rebound in due course from every reaction or depression. Subject to price swings habitually broader than those of the industrial average, the stock is well suited to the requirements of anyone seeking capital enhancement through the intermediate or cyclical fluctuations of the general market.

Although the cycle of the motor industry coincides closely with that of total industrial activity, it has a well defined tendency toward at least two good years in a row when the preceding year has closed with a strong fourth quarter uptrend. Such is the case now. Beginning with the summer of 1938 and continuing to date there has been a major improvement in national income, which has translated itself fully into increased public purchasing power due to the absence of any significant rise in prices of finished goods and the cost of living. Marginal public buying power (the leeway over necessitous living costs) is now back virtually to the recovery high of early 1937. It is this type of income gain, plus the increasing confidence of the public in contracting installment debt, upon which the automobile business thrives.

There is the important additional factor that new

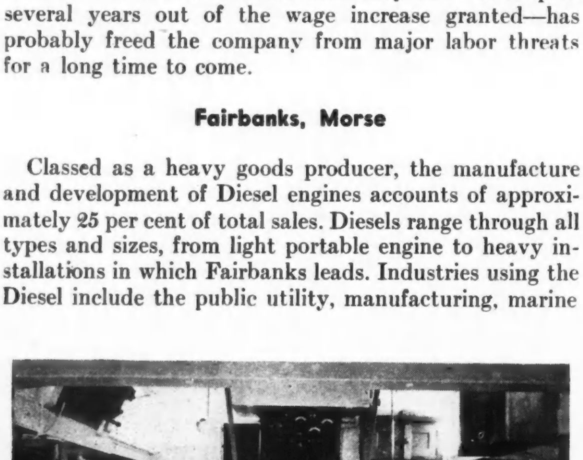
cars sales were heavy in the years 1936-1937, which means—since trade-ins are most numerous after two to three years of use—that 1940 should provide an especially favorable replacement demand. It is not improbable that the year's factory sales of cars and trucks (U. S. and Canada) will approximate 4,500,000 units, as compared with 3,710,000 in 1939.

Of this expanded motor business in prospect, Chrysler may be relied on to get its full share. The company has increased its proportion of total domestic sales since 1929 from one-tenth to more than one-fourth. While the most spectacular part of this trade gain has been established by 1932-1933, due to the success of the Plymouth car, additional moderate gains have been made over the past year or two. Prior to the long strike which hampered operations in the fourth quarter, Chrysler had shown larger percentage sales increases on 1939 models than the industry as a whole. Its 1940 models have been well received.

The forthcoming Chrysler earnings report probably will show 1939 profit somewhere around \$8 or \$9 per share, no precise estimate being possible because of wide variations in charge-offs from quarter to quarter. If 1940 volume and profit margins should approximate those of 1936 or 1937—a not unreasonable possibility—net could range upward to \$12 or \$14 per share. Since financial position is more than comfortable, dividend policy is liberal when the earnings are there. As a final consideration, last autumn's costly strike—depriving the workers of more income than they can make up in several years out of the wage increase granted—has probably freed the company from major labor threats for a long time to come.

Fairbanks, Morse

Classed as a heavy goods producer, the manufacture and development of Diesel engines accounts of approximately 25 per cent of total sales. Diesels range through all types and sizes, from light portable engine to heavy installations in which Fairbanks leads. Industries using the Diesel include the public utility, manufacturing, marine



Courtesy Fairbanks, Morse.

Twin diesels in the engine room of a private yacht.

work and agriculture. This division is growing in importance and bids fair to contribute substantial earnings to the total income in the present year. Other products consist of a line of internal combustion engines and an electrical division. The latter produces motors, generators and other electrical apparatus. Other branches make railroad motor cars, track maintenance supplies, scales of all types and sizes, and water supply equipment.

Earnings are readily affected by cyclical influences and following 1929 declined rapidly. Beginning in 1934 improvement was shown, and then in 1935 followed payment of dividend arrears on the preferred stock, which was finally retired in 1938. At the present time therefore there are only 599,595 shares of (no par) common stock outstanding in addition to some \$5,411,000 funded debt. Though earnings in the final six months have not yet been announced a payment of \$200,000 was made December 12, 1939, on outstanding notes thus leaving only \$550,000 serial 2½ per cent notes outstanding. For the six months ended June 30, 1939, net income was equal to \$1.20 a share compared with \$0.03 a share in the same part of 1938.

Now that heavy industry is beginning to take hold and indicate a recovery from its recent inactive state this condition should gradually become accelerated and run through most of 1940. In view of the strong financial position Fairbanks, Morse finds itself in, and the growing demand for Diesel engines, its outlook is promising.

Celanese

Company is a leading producer of acetate rayon yarns and materials for which demand has shown a spectacular growth. Labor difficulties and low prices for yarn, as a result of intensive competition, have been obstacles the company has had to overcome, and these factors largely account for the erratic earnings record in the face of constantly greater demand for its products. Processes are covered by some 600 patents. Synthetic yarn is a chemical compound of cellulose composed of ascetic acid, acetone and other chemicals as well as cotton linters.

Besides a \$10,000,000 funded debt, capitalization consists of 164,818 shares of 7 per cent prior cumulative preferred (\$100 par), 148,179 shares of 1st participating 7 per cent cumulative preferred (\$100 par) and 1,000,000 shares of (no par) common stock. In addition there was \$6,200,000 due banks as of June 30 balance sheet. During the first nine months of 1939 net income totaled \$4,261,809 compared with \$1,865,423 in the nine months ended September 30, 1938, or an increase of 130 per cent. This was equivalent to \$2.36 and \$0.20 per share of common stock, respectively. Net for the full year was probably around \$3.50 per share, topping earnings of such good years as 1936 and 1937 by a wide margin. On a percentage basis this stock is one of the more volatile moderate priced issues on the Big Board and unusually reliable in both intermediate and major swings when purchased at an opportune time.

United States Steel

With the major part of "Big Steel's" plant expansion completed, the organization is now in a position not only to take care of a large volume of business, but also

to pay dividends as earned. In a word, the period necessitating the plowing back of earnings into the business on a large scale is past. This program involved the construction of such modern steel making facilities as the Irwin Works, and involved a total recent investment of some $200,000,000. As a result the corporation has increased its light steel facilities substantially whereas formerly it had a preponderance of capacity in heavy lines. This has resulted in a larger volume of orders from the automotive industry, which formerly had not been obtainable on as large a scale. An additional advantage is the wide diversification of plants, which are in proximity to consuming markets such as Pittsburgh, Chicago and others.

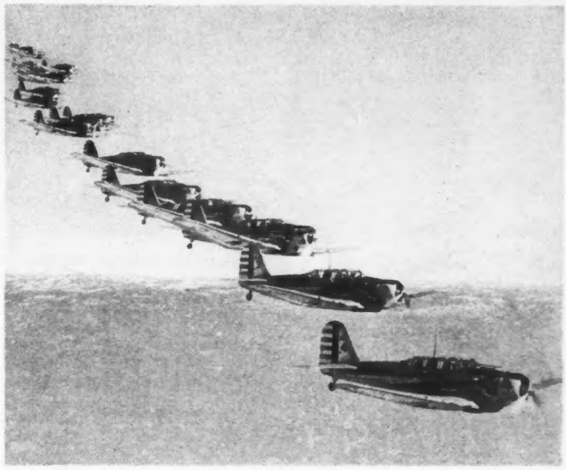
Tin plate is normally one of the most profitable departments, which along with automotive demand is likely to keep the light productive facilities in considerable use during 1940. Thus it seems safe to say that with the automotive outlook favorable "Big Steel" should receive its share of this business, and this in turn should constitute a good backlog throughout a large part of the year. It would not be surprising if the railroads came into the market again. It seems probable that these factors along with United States Government orders for shipbuilding and armor plate are likely to make-up the most important elements in the potential backlog. As always miscellaneous small orders are likely to bulk large in toto. Maintenance of a rate of operations somewhere between 65 per cent and 70 per cent of capacity on the average should place the corporation in a position to pay dividends before the year is out. Such a rate is probable for the first half but from this distance can be set forth as only a possibility for the second half.

With steel shipments probably averaging better than 1,000,000 tons a month in the final quarter of 1939 earnings on the common stock should be substantially better than the 47 cents a share reported in the September, 1939, quarter. Because of deficits in the first two quarters of the year, net income for the first nine months ended September 30th amounted to $12,390,756 against a loss of $12,150,368 in the corresponding part of 1938. This was equal, respectively, on the common stock to deficits of 75 cents and $3.57 a share. The significance of these figures is found, however, in the ability of the Corporation to swing from poor to good earnings in a very short space of time. The stock is ideally suited to the requirements of intermediate and cyclical speculation.

Baldwin Locomotive

Baldwin holds an unusual position in that it is an outstanding manufacturer of locomotives and heavy machinery, which because of its 61.45 per cent interest in Midvale, it can be classed as a "war baby." The Midvale Co. is an important maker of armor plate and other steel products used in ordnance. Besides these major operations Baldwin, through subsidiaries entirely under its control, carries on the production of forgings, steel wheels, Diesel engines and refrigeration and air conditioning equipment.

During 1939 railroad orders for locomotives improved substantially, though there still remains a not inconsiderable shortage assuming, of course, any increase in car-



Wide World.

Orders for fighting planes boom the aviation industry.

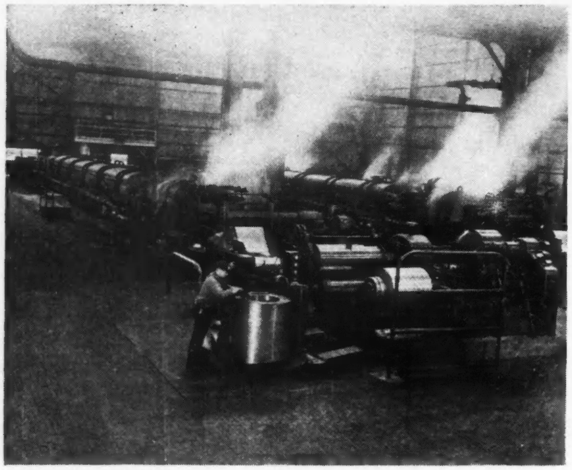
loadings over a sustained period of time. Then too foreign orders for locomotives have gained and these are largely attributable to the war. For instance during the past year a Brazilian order for 21 locomotives was divided between Baldwin and American Locomotive. Other foreign inquiries have been developing and these seem certain to continue and increase with prolongation of the war. In view of the recent trends in this division of the company's business it appears probable that continued betterment will run through 1940. It might be added that basically this division is the most important, and earnings are fundamentally dependent upon it.

Through its interest in Midvale the company receives considerable return in dividends. Since this unit paid a total of $6.50 a share during 1939 the income from this source alone would be roughly about $4,075,000. According to the latest available reports estimated backlog for Midvale was in the neighborhood of $25,000,000 against $7,689,000 at the beginning of 1939.

Though income derived from other subsidiaries is relatively small compared with that of the two foregoing units they aid somewhat in broadening and supplementing the company's activities. Because of the somewhat top-heavy capitalization with funded debt amounting to almost $10,000,000 followed by an issue of preferred stock and 1,027,762 shares of common Baldwin stock is subjected to considerable leverage, and is consequently highly volatile. The year 1937 was the most recent annual period in which operations were in the black, but with reasonably satisfactory developments 1940 should witness real improvements. Therefore Baldwin enters the new year in better shape than it has been for some time.

North American Aviation

More than any other aircraft company North American comes near the production methods employed so successfully in the automotive industry. This is largely due to the management's concentration on small observation and fighting ships, though plans for new models are constantly being worked on and developed. In 1939,



Courtesy Carnegie-Illinois.

The pickling line for stainless steel sheets.

for example, the company introduced a new attack bomber, which ranks among the best. According to the latest reports unfilled orders total $51,000,000 with foreign countries accounting for about 50 percent of the whole.

Larger profit margins permitted aircraft manufacturers are working out favorably for this company. Consequently net income in the first nine months of 1939 amounted to $5,049,617 compared with $1,014,491 in the nine months ended September 30, 1938. This represents a gain of 396 percent. Continued satisfactory earnings were undoubtedly made during the final quarter of 1939, with estimates of around $2 for the year on the common stock. Share earnings during the first nine months of last year were equal to $1.47 against $0.30 in the similar part of 1938. It is expected that plant capacity will be extended and enlarged approximately 50 per cent during coming months but whether this will be accomplished from the reinvestment of earnings, or from capital financing in the form of issuance of additional stock has not been announced. Probably it will take the latter form, assuming, of course, market conditions are favorable to such an undertaking. The cost of the program is estimated at $1,000,000. General Motors holds a 29.1 percent interest in the 3,435,033 shares of ($1 par) common stock.

In practice two training ships, such as those made by North American, are used on the average to every single bomber. Hence this company's unit volume is large and its dollar volume likewise compares favorably with those of other plane manufacturers. If the company were to concentrate productive efforts on only two or three models output should average 300 ships monthly, though at present management is building three types of planes in seven different models. Therefore with orders coming largely from abroad and the United States Government, the outlook is favorable.

Continental Oil

As a thoroughly integrated petroleum unit maintaining adequate crude oil and refining facilities as well as service marketing stations, this is one of the better companies in the oil industry. At present the statistical position of crude oil is satisfactory, though that of gasoline has been working toward a somewhat heavy inventory situation. Nevertheless the price of crude oil has continued relatively firm, and consumption of gasoline has been constantly increased. Thus the longer term outlook for petroleum shares is likely to improve and some betterment it probable during the coming months, when normally gasoline consumption gains with the approach of the warm Spring weather.

Continental has maintained relatively satisfactory earnings during the year just past and for the nine months ended September 30, 1939, net income totaled $4,065,842 against $5,793,406, which was equivalent respectively to 87 cents and $1.24 per share of common. This record compares favorably with other oil companies and was made under difficult conditions. Financial position is strong with current assets amounting to $51,274,463 and current liabilities, $9,020,708, according to most recent balance sheet.

While the position of the oil industry will bear close watching over the next month or two, there may be a distinct change for the better in 1940 and meanwhile oil shares has discounted much adversity. Uneconomic development of the new Illinois field has been an important source of trouble, but there are reports that production here has reached its maximum. Continental common around 24 is now priced only moderately above its bear market low. The 1936 and 1937 highs were, respectively, 44⅞ and 49. Thus there is room for substantial percentage rise if 1940 brings material betterment in the industry's supply-demand balance. It has at least a fair chance of doing so.

Vanadium Corporation

With control of the world's largest deposits of vanadium ore, this company holds a unique position. Properties are located in Peru with metal reserves estimated at 70,000,000 pounds of vanadium. Conversion is undertaken at the company's Bridgeville and Niagara Falls plants where the ore is shipped. Each of these plants reduces and converts this ore into ferro-vanadium. This output alone accounts for approximately three-fourths of domestic demand, and constitutes the major portion of Vanadium's sales volume. In addition there are other alloys produced which contain silicon, titanium, chromium, tungsten and other related products. Silicon deposits are owned in Canada and New York State, while titanium is obtained from the company's properties in Virginia.

Demand for these products comes largely from two sources. First is the demand from the steel industry, which uses this ore along with other competitive alloys such as nickel, chromium, tungsten and molybdenum in steel making. The special quality of vanadium lies in its particular ability to produce toughness and hardness required by some specially made steels such as those needed for high speed tools. Other uses requiring vanadium as an alloy are steels made into hard driven machine parts, which are subjected to intense friction and wear and tear such as occurs in the automobile industry, in gun turrets and in moving parts of winches. Other industries using a ferro-vanadium alloy incorporated in its steels are building construction, oil, railroad, ma-

chine tool and agriculture. It can be readily seen therefore that the steel industry is the company's most important customer, and with the likelihood that operations will be somewhere between 65 and 75 per cent on the average throughout the year demand for vanadium from this source should be relatively promising.

Secondly, titanium has a wide number of varied uses. The most important of these, however, and one most likely to grow in use is in its application to paints. The principal advantage held by titanium as a pigment is its greater covering power, greater durability, the fact that it is non-poisonous and its great resistance to corrosive effects particularly such as salt water. In view of the wide demand for white pigments the possible need for titanium is large. Considerably increased use of this mineral is likely during 1940 both from residential building construction and in the painting of ships and vessels of all sorts.

Earnings for the first six months of 1939 were equivalent to $1.01 a share, and are expected to carry over into the new year at a substantially improved rate. With business activity likely to run at a high average level, demand for Vanadium's products should continue satisfactorily. Of late the company has stepped up its production of tungsten, which is among the strategic minerals sought by the War Department. The stock is often a wide mover.

Glenn L. Martin

For a good many years Martin has concentrated the major portion of its efforts on the construction of bombers, and has always been largely dependent upon military orders. Therefore the bulk of its business has come principally from the United States Government for the account of the Army and Navy and from foreign countries both in the Far East and in Europe. The most important model is the long cruising range land-type twin-engined bomber, which has been very well received in Army circles. According to G. L. Martin, president, production and deliveries during the latter part of 1939 reached the highest level yet to be attained by any airplane company. For 1939 estimated deliveries were placed at $24,500,000, or almost twice those for 1938, when a total of $12,417,417 was reached. Since roughly 65 per cent of the 1939 total was scheduled for delivery during the final quarter, earnings for that period are estimated at the equivalent of $2.60 a share, or $4.00 a share for the entire year.

On December 1 unfilled orders came to $53,000,000. Since annual capacity ranges between $60,000,000 and $65,000,000 this should result in a full year's activity. Assuming that the current profit margin of between 17 and 18 per cent is maintained earnings in 1940 should be substantially better than those for the year just past.

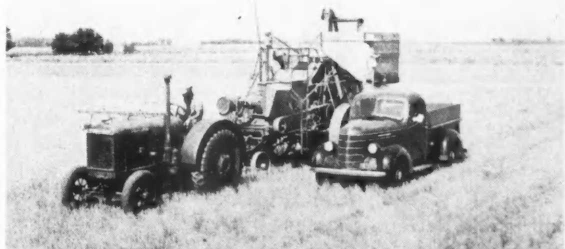
The risk factor in all aircraft shares must be duly recognized, since they have already had a major advance. Any prospect of early European peace would no doubt produce a very stiff reaction. Conversely, intensification of the warfare in the spring could readily induce further important rise. In our opinion, peace will not come in the spring and good aircraft issues are a speculative buy in reactions which substantially strengthen their technical position.

International Harvester

Few companies offer as broad industrial diversification and are simultaneously as subject to varying fluctuations of agriculture as International Harvester. Thus prosperity in the farm areas is beneficial to sales of agricultural machinery, while industrial activity creates a broad market for the company's output of trucks, tractors and steel products. Within the past decade, however, Harvester's percentage of farm implements sold has declined from 21.2 per cent of the industry's output in 1929 to around 12.2 per cent in 1938. Truck production and sales have climbed, on the other hand, from 5.9 per cent of total registrations in 1929 to 15.3 per cent in 1938. Continued betterment in this division is indicated, according to the latest reports.

Tractors constituted for a good many years an important part of the company's business, but competition has grown more intense. Of late Harvester has had difficulty in this division of its business, though in 1938 its output accounted for approximately 50 per cent of total domestic sales, while during 1937 it accounted for about 43 per cent of sales. In the former year, however, Harvester's total sales volume dropped 32.6 per cent under that for 1937. In June, 1939, the company took steps toward improving its position in this field with the introduction of a new small tractor, the Farmall A, priced at $515. Prior to this no attempt had been made to enter the low priced tractor field, so that other companies improved their relative position. While it is as yet too early to tell definitely just what results the new low priced tractor will have it seems safe to assume that Harvester is very likely, judging from past history to better its own position and perhaps even cut into that of its competitors.

Continued betterment in grain prices and cotton usually work to the benefit of sales following the marketing of crops. Thus improved farm purchasing power should come into play sometime during the first half of 1940 following the harvesting of the winter wheat crop, and carry through into the latter half of the year. Likewise better general business is likely to find reflection in greater purchases of trucks, while substantial improvement in the tractor division (*Please turn to page* 444)



Courtesy International Harvester.

If the threatening squeeze in raw materials forces up prices of manufactured goods—

What of Consumer Buying Power?

BY JOHN C. CRESSWILL

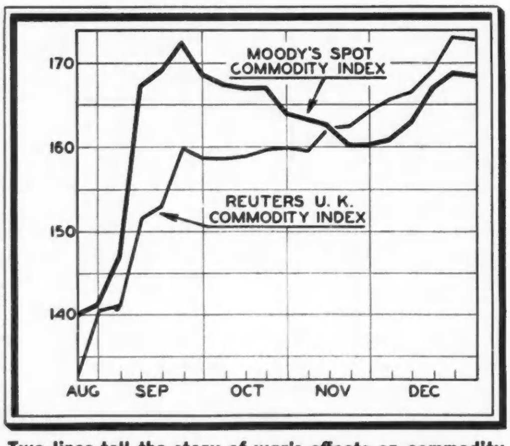
THERE are all sorts of arguments on the question whether or not the jump in business activity since Labor Day is a direct outcome of the war. No one can doubt, however, that the rise in raw material prices which has set in all over the world traces back to the beginning of hostilities, and will be governed in its further progress by the length and the type of fighting. And of the two developments—better business and a higher price level—it would take a bold guess to say which has the greater significance for this country's immediate future.

One accomplishment is already chalked up to the credit of the business recovery. Total salaries and wages have come up practically even with the highest point in 1937, with those for November calculated at slightly under $3.9 billions as compared with a small fraction over that figure two years earlier. Spending money is as abundant for the section of the population that does the important spending as it has been at any time since the depression of ten years ago.

This will prove to be a key factor in coming months, particularly if it turns out that we are to be disappointed in the speed of foreign purchasing for war needs. Something will be needed to carry industry through a period of consolidation, and there is nothing better, of course, than a steady domestic demand originating right with the consumers. When they have the purchasing power and show willingness to use it, the trend is not one that is in danger of reversals from month to month. As a sustaining force, it is about the most dependable we could ask for at this time.

The one thing that could almost automatically spoil this picture of high and increasing consumer purchasing power would be a runup in the prices of finished goods. Pay a man double his regular salary and then charge him twice as much for all the things he is expected to buy—and you find no factories working overtime to supply his additional demands. You are more likely to start a consumers' strike which results in a net decrease in quantity of goods purchased, rather than an increase.

The danger of exactly that process has been brought home forcibly by the recent action of commodity markets here and abroad. THE MAGAZINE OF WALL STREET's index of raw material prices gained 24 per cent in less than a month after the war began. Most individual commodities then reacted fairly sharply, but since then the uptrend has been resumed. British prices, according to the Economist's index, are up 27 per cent since September, and this is three times the rise shown in the first six months of the World War.

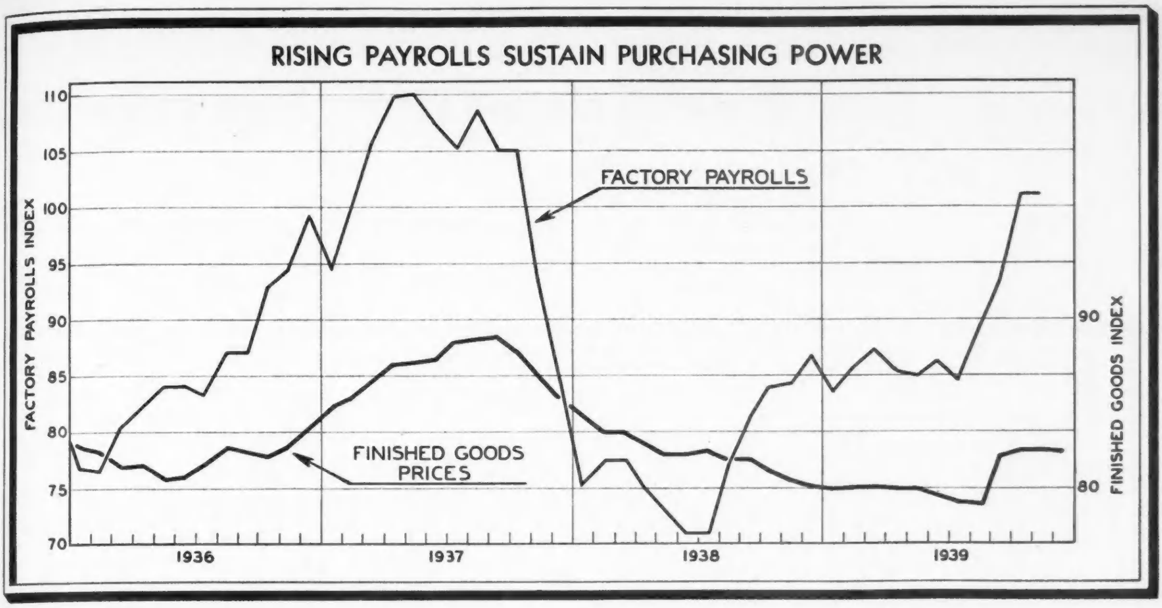


Two lines tell the story of war's effects on commodity prices—here and abroad. The chance that war-inflation will extend further brings up the question of consumer buying power under possibly adverse conditions. Can it continue to sustain business recovery as it has for months past?

In terms of raw materials, the average citizen's buying power has been abruptly reduced, despite his growing income.

But the average citizen does not buy commodities; he buys finished goods, whether automobiles or newspapers. The price of pulp or newsprint, crude rubber or steel scrap, means nothing to him until it comes through to his own pocketbook. War inflations are theories to him until he sees the results in his own living costs, and so far, rather surprisingly, the price level for finished goods has absolutely refused any attempt to keep up with advancing raw materials.

Back in 1937, when monthly salary and wage payments had gained $500,000,000 in a year, the increase in purchasing power had not been in similar proportion. The index of finished goods prices compiled by the Department of Labor (1926=100) went from 81.6 to 87.7 between the middle of 1936 and the middle of 1937. While wage payments were advancing 15 per cent, purchasing power was gaining only 6 per cent. The apparent addition of $500,000,000 to monthly potential demand for finished goods was in reality only an additional $200,000,000, in round figures.



Now contrast that with what has been happening recently. The pickup in wages and salaries from a low of $3.4 billions monthly in the spring of 1938 has again amounted to about 15 per cent and has added $500,000,000 to potential monthly spending. But during the same period the price index for finished goods has actually declined from 83.3 to 82.3, so that in terms of purchasing power the full gain in wages and salaries is effective.

Commodities and the Price Level

In other words, the lower price level has made possible the addition of roughly $500,000,000 a month to purchasing power in this latest period of advancing incomes, as compared with only $200,000,000 under the same circumstances back in 1937. This is an economic stimulant comparable in size with the Government deficit spending about which we hear so much. It undoubtedly goes far to explain why consumer demand for general merchandise reached a new all-time high late in 1939.

The condition may not last indefinitely, however. In the first stages of an advance in the general price level, raw materials are far more sensitive and quicker to move than are finished goods. Sometimes their fluctuations are completely ironed out before they have a chance to affect the entire price level. Bulges of this sort are frequent and are ordinarily absorbed by processors and manufacturers on the way to the retailer. Only when the change persists or the trend gives definite signs of continuing are the higher prices passed along to the consumer.

In the present instance, while finished goods are actually a bit below their level of early 1938, semi-manufactures have risen almost 10 per cent. This was to have been expected, since finished goods prices had held up much more firmly than those of semi-manufactures, and the recovery was most effective in the categories hardest hit by the slump. But if the trend should continue it would mean considerable distortion in the consumer's favor and at the expense of many profit margins.

The most important controlling influence from this point on will be the action of the principal commodity markets. Should even present levels be held, it would not be surprising to see some advance over a period of months in finished goods prices. Unless wages can manage to gain more rapidly, the result will be a decline in real purchasing power. This has happened in the past without disastrous consequences—in early 1935, for example—but it is never an encouraging development.

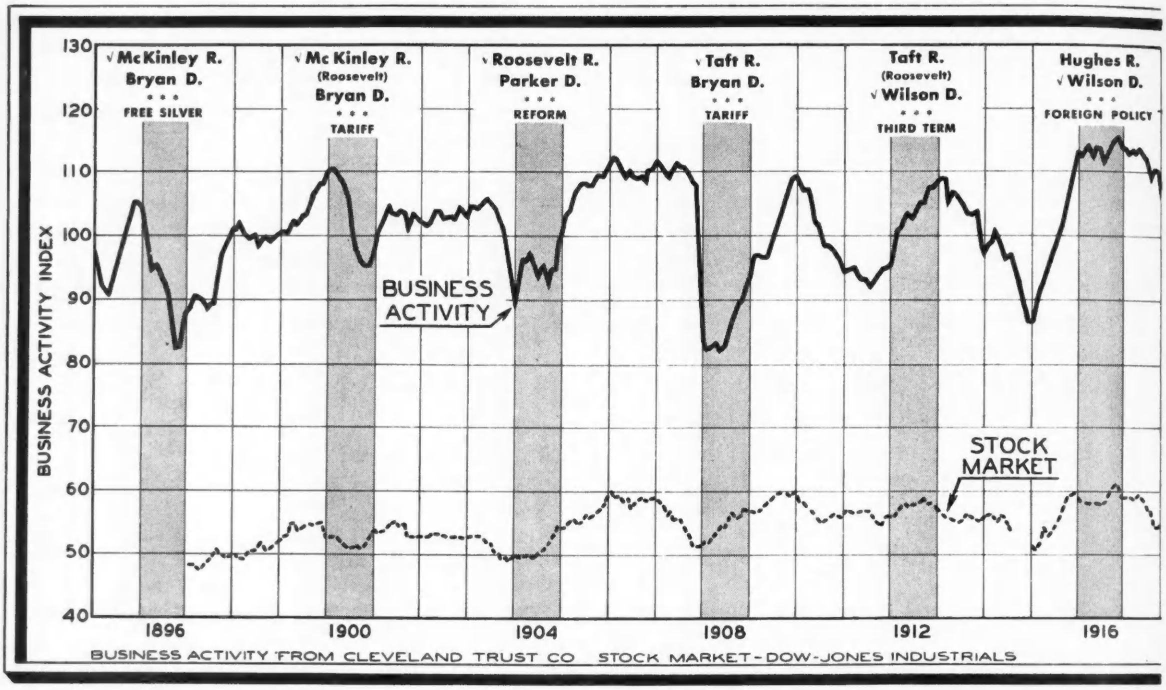
Control over finished goods prices is being attempted in various ways by almost every government, those at war most determinedly, but also by those still maintaining their neutrality. It is realized that the existence of a major war affects the price levels of all countries, and probably more readily now than twenty-five years ago. The totalitarian states can dictate prices right from the raw material to the ultimate consumer, and there is no doubt that the democracies will be forced to approach the same methods, although more reluctantly and possibly less efficiently. But war suspends many of the rules of supply and demand applying in normal times.

Efforts in this country to prevent wide price increases have been confined quite closely to persuasion and to publicity for those which appear imminent. The T N E C has been used as the forum for discussion of the whole subject, and there is no doubt that much has been learned about the possibilities of holding down certain price levels while allowing others to rise. In the long run, however, higher raw materials costs must be balanced by reductions in some other quarters, such as wages or taxes, by technological advances, or by lower profit margins, if prices of finished goods are to be held unchanged.

From the viewpoint of a detached planner, there is this to be said for the policy of deliberately squeezing manufacturers' profit margins by holding down their selling prices—it destroys the exuberance and the cooperation of many business men in an era of speculation in raw materials. Past a certain point it no longer continues profitable for them to stock up, since the expectation of selling at constantly *(Please turn to page 445)*

. Presidential Elections, Bu

A Forty-Six Year Period at a Glance



Every four years the most magnificent spectacle in modern times takes place here in America; this nation goes to the polls to elect a President. Yet, instead of acclaiming the opportunity to voice his opinion, the average man thinks in terms of the tradition that business and industry decline during an election year. On the face of it the assertion sounds logical enough. Shifting governmental policies might reasonably be expected to exercise a major influence on the trend of events. Actually, though, the record of past elections does not support this contention.

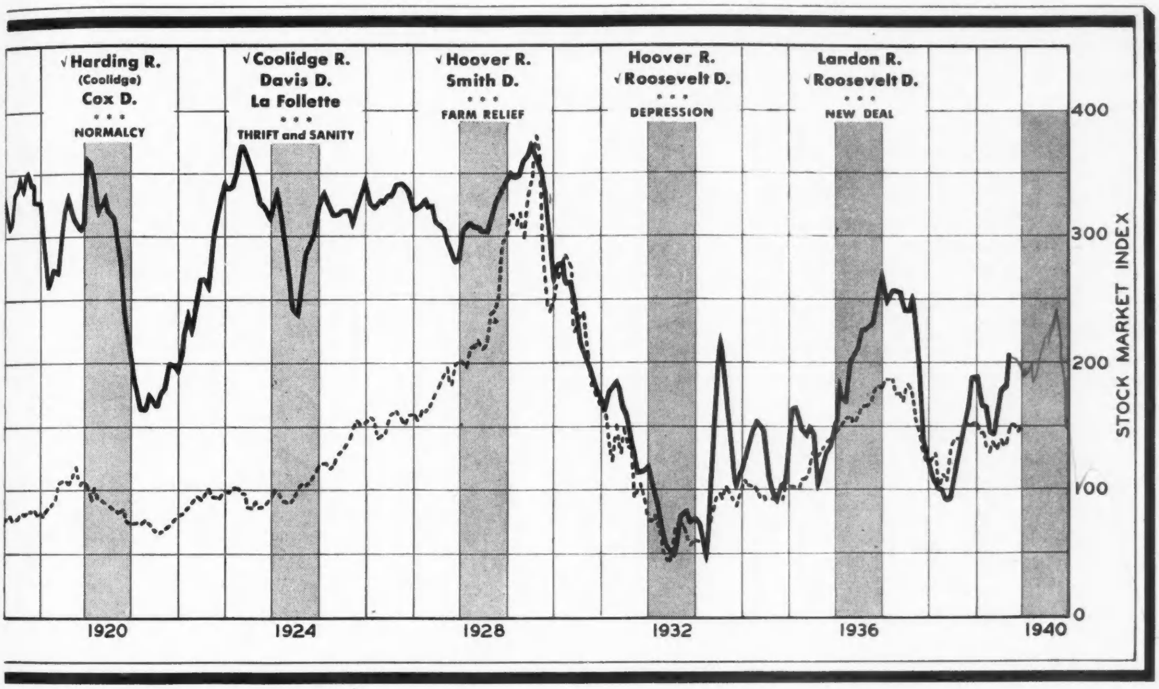
To show this fact more clearly we have charted the historical precedent since 1895. That year is important for two reasons. It marks for all practical purposes the end of a transition period in this country. The industrial activity of the nation had just passed the development stage and was entering the expansion era that was to place America in the front rank as the leading manufacturing nation of the world. And it marks the height of the free silver campaigns that threatened to throw the whole economy into confusion. The chart plots the course of business activity and the market averages from 1895, therefore, to date. In the 46-year span thus covered we have eleven Presidential elections with as many issues from which to draw our conclusions.

A summation shows that in eight of these eleven election years the market ended on a higher plane than it began. In some years the climb was steady from January right through to December and in others a downward trend was reversed by a move that more than cancelled the loss, but in each instance the final position showed a net gain. In the three remaining years the decline was severe, but only in the case of the free silver issue was it based on government and politics. The other occasions were 1920, during the first post-war depression, and 1932, the bottom of the world depression.

The action of the business activity line is more erratic and moves contrary to the trend of the market averages in some instances. The first major attacks on big business were getting under way in 1900. But the shooting of McKinley brought "Teddy" Roosevelt to the White House, and the initial reaction to his vigorous policies, both foreign and domestic, was favorable. There was some hesitation on the part of business during the campaign of 1904, but it was not shared by the market. After the re-election of Roosevelt on a reform ticket business boomed for the next three years. Then the increasing agitation for anti-trust measures began to act as a brake and finally culminated in the panic of 1907. Concerted action by the Government and a group of financiers led

Business and the Market

BY H. M. TREMAINE



by the elder Morgan brought the money market back to normal, and business gained all through the 1908 election year. In that year the issue was tariff reform. The election of 1912 was the occasion for a bitter third term battle which ended with the highest office in the land going to Wilson, a comparative dark horse. In spite of this both the market and business averages showed steady gains over the whole year.

The wide swings in both yardsticks during the World War and the post-war depression carried through two election years. But the trend of the times was such that political influence cannot be credited or blamed entirely for their action. The 1924 and the 1928 elections showed wide ranges in business activity as the country emerged from the struggle back to normalcy and entered the era of Coolidge Prosperity. This ended abruptly in Hoover's administration with the 1929 crash.

The 1932 election which was held at the bottom of the depression ushered in the present Administration, and marked the beginning of far reaching Government control of and actual competition with business. That year was marked by economic considerations in which politics played but a small part. In the 1936 election the New Deal was the political issue and the fight was a hot one. Yet with the exception of a slight reaction during the early part of the year, the business trend was consistently up, and the market averages recorded only the slightest deviation from the forward move.

What the experience of this year will be defies prediction as far as the outcome of the election is concerned. But the indications given by the various major consumption and production indexes point to a flying start for 1940. Without regard for the Presidential election, heavy industry, steel production, carloadings, factory payrolls, and power output, to mention a few, are widely expected to show gains over last year. Thus it seems that the nation is forging ahead, with business and industry as ready as ever to pocket a profit.

Taking, therefore, the charted record of the 46-year period since 1895 and the eleven election years that it covers, the case for the axiom becomes a weak one. Undoubtedly politics and Government exert a profound influence on the trend of events in this country. But the contention that a Presidential election year must necessarily be one of declining business and industry is purely a myth. The possibility that the current year may find business hesitant just before the convention and again just before the election itself must not be ruled out, but any such development will be entirely the result of the immediate picture and will not reflect precedent.

Happening in Washington

The Politics Behind the Budget

BY E. K. T.

THE Federal Treasury will be skating on mighty thin ice during the next couple of years under the budget submitted by President Roosevelt, for it will be uncomfortably close to the limit on its borrowing power.

Since there is virtually no prospect that Congress will raise the statutory debt limit of 45 billions, and the debt right now is 42 billions, Roosevelt took this limit and worked backwards in budgeting the Government for the 1941 fiscal year. He has figured a way under which the debt will be 61 millions under the limit by June 1941, but there are so many great big ifs in his calculations that should anything go a little bit wrong, Treasury vouchers will be coming back marked "N.S.F." before that. Of course that will be after the election, and then maybe Congress will see its way clear to raise the debt limit, boost taxes, or cut spending.

A concession to political expediency is an apt description of the way the budget was made. Roosevelt estimates the smallest deficit and the nearest approach to balance in years, but he praises the spending theory and warns that proposed cuts may cause trouble. The cuts seem to be proposed with tongue in cheek, to embarrass Congress and in the hope they won't be made.

To keep within the debt limit, Roosevelt figures on a lot of things which might not come to pass, including: business improvement sufficient to bring the estimated increased tax yields, increase in private employment to offset reduced relief spending, improved markets and prices to forestall demands for farm benefit payments, heavy reduction in the Treasury's working balance, recovery in some mysterious way of $70,000,000 excess capital of Government corporations, enactment of $460,000,000 new taxes, and Congressional appropriations no larger than his estimates. Even if it should all work out this way the Treasury would have no leeway a year or so hence, and since some revenues counted for 1941 are non-recurring the problem of staying in the debt limit in 1942 will be acute.

Will Congress keep appropriations down? So far there have been no serious squawks from pressure groups demanding more for relief, public works, superhighways, farmers, pensions, etc., and the now obvious necessity of voting new taxes if spending is boosted may deter them. While each group is ready to jump if it appears any other may get a break, it now looks possible and even somewhat probable that appropriations will be kept within the estimated $8,424,000,000. Certainly the House appropriations committee which originates the bills will slash deeply, and it will be up to House and Senate to follow through. There is darn little pork in this budget, and Congress is on the spot —it simply has to economize, raise taxes or accept the theory that the debt can keep on going up.

National defense is the chief bone of contention in the budget, for if the spending recommendations are followed new taxes must be found this year. Prospects now are that Congress will prefer to cut defense spending by half a billion rather than vote taxes. This will raise a row, but strong arguments will be that we should wait the outcome of current wars to see what types of arms we need and that accelerated preparedness indicates intention to get into war. That much of a cut would keep defense spending at about the level of last year and this, which many feel is high enough. At any rate, a new tax bill won't be considered for two or three months.

All new spending projects are strictly out the window, such as health services, education aides, public works revival, etc. The President proposed none and Congressional advocates find themselves under a tight damper. The heavy cuts recommended in civil departments, works, relief, youth aids, and farm relief will be hard enough to take. The way in which Roosevelt proposed these cuts, warned that supplemental estimates may be necessary, and claimed that decreased Federal spending in 1937 caused the recession poises the question whether he is sincere in this budget—does he expect a rebellion in Congress now or a depression a few months later to force acceptance of his theory of deficit spending as a prosperity prop?

On the other hand, the revenue estimates seem quite conservative. Some experts say that if business is as good the next 12 to 18 months as most people expect the tax yields should be considerably higher than the budget forecasts. If so, perhaps Roosevelt is trying to scare Congress or is figuring on having a little more leeway this side of the debt limit than he cares to predict.

CAPITOL BRIEFS

President's message confirms earlier predictions that his strategy is to use the war to minimize partisian opposition and gloss over criticisms of New Deal policies and agencies. Compared with previous annual messages, this one is notable for things not said—no attack on business or his critics, no new reforms suggested, no boasting or defiance, no hint that U. S. should play a more aggressive international role, scarcely a mention of a controversial subject, hardly a word which can arouse opposition. But while applauding his "national unity" plea, factions in Congress got ready to start the political scrap again.

Trade agreements act renewal will be fought for hard and early by the Administration, contrary to some reports that Roosevelt would let it drop to avoid an issue. It may be one of the major battles of the session, but administration forces are confident they will win and independent observers see a 50-50 chance. Some concessions may be made, such as requiring Senate ratification of new agreements, but some State Dept. officials feel this would not be as much a handicap to their program now as when it started.

Political truce overtures being made by Roosevelt in several ways will not get far. Republicans may pull their punches some on foreign policy, but will make as many domestic issues as possible and if plea for a coalition government is pressed they will make a big issue of the need for a two-party government. Voters are not inclined to view any foreign or domestic situations as requiring a "national government" and adjournment of politics. And when the approaching campaign warms up, the politicians are also likely to forget their urge for fraternizing with enemies.

Farm vote is worrying Republican strategists. Surveys by G.O.P. farm committee indicate general satisfaction with administration's present program and a frontal attack on it might lose many votes in rural areas without compensating gains in city districts. Strenuous efforts are being made to find ways of improving the program consistent with other Republican doctrines and also to turn up some new and promising ideas. To this end "farm chemurgy" is being given serious study in hopes of inducing capital to make new industrial products from crops.

Wide World Photo

Senator Pat Harrison, Chairman of Finance Committee, wants '41 budget carefully studied

New "land" program of Wallace, involving reorientation of Dept. of Agr., is designed to put greater stress on soil conservation in all Dept.'s activities, but it is also capable of being used to force greater compliance with indirect production control schemes.

South American credits plan is being advanced quietly by the Administration with ideas centering around a clearing house for central banks of each country to stabilize exchange and handle international payments and loans. Hope is to increase U. S. investments to develop production of goods we import from other parts of the world, but plan is expected to meet many objections both from several nations involved and from U. S. Congress.

Interior Department purge is planned by Ickes to get rid of Republican hold-overs in key positions and scientists and others whose conservative views prevent them from endorsing New Deal ideas. He is particularly sore at Bu. of Mines for not straining itself to secure enactment of Cole bill to give Ickes control of oil production, and for not finding scientific justification for establishment of steel industry near West Coast power dam sites.

Moral embargo is new method of government "short of war" for taking a hand in international affairs without violating the letter of neutrality. At present it applies to exports to Japan and Russia of aircraft, light alloys, and airplane gasoline equipment and the list may be expanded gradually if there are no repercussions. So far exporters have not objected because it has not lost them much important business and they know their competitors are complying. State Department has no power to enforce its embargoes but depends on public opinion.

Radio propaganda by New Deal agencies is one thing the Republicans haven't figured out how to beat. In addition to national hook-ups by several agencies scripts and transcriptions are prepared for local use by stations throughout the country and get a wide audience. While not openly partisan, the stuff tells what the government is doing for Mr. Average Citizen in a way that leaves the inference that sole credit goes to the present administration, and it's so cleverly done that opponents can neither attack nor counteract it. (*Please turn to page* 446)

Research That Pays Off; Frontiers That Are Boundless; Stability, Growth, Earnings, Dividends. In Short—

The Chemicals

BY WARD GATES

THE cosmos, says Britain's eminent mathematical physicist, Sir Arthur Eddington, is composed of 15,747,724,136,275,002,577,605,653,961,181,555,468,044,717,914,527,116,709,366,231,425,076,185,631,031,296 protons, together with a like number of electrons. Whether or not that estimate is correct right down to the last dozen digits is, for our purposes, beside the point, which is merely that it is *not* "such a small world after all," that there is somewhat more to it than meets the eye and that, to the modern chemist, it is all just one big laboratory.

None of which comes under the head of Startling Revelations but does, nevertheless, recall an economic axiom and point an investment moral.

The axiom: that change is inexorable but only by constant research may an industrial enterprise regularly profit by it. The moral: that long run investment profits are to be had only in those enterprises whose managers accept this axiom and act accordingly.

I. The Industry That Never Grows Old

Chemistry is at once one of the oldest and youngest of industries. Evolved in its present concept from the ancient pseudo-science of alchemy, it antedates the machine age by a substantial margin. And yet it is only within the past five or ten years that its most spectacular and promising developments have been forthcoming.

Up until comparatively recently, inorganic chemistry was, for most practical purposes, almost the only chemistry we knew. About the only commercially produced organics were the alcohols and some of the older solvents, a few of the simpler coal tar derivatives, pharmaceuticals and wood chemicals. The bulk of output was comprised of inorganic heavy chemicals—sulphuric and other acids; the alkalies, principally caustic soda and soda ash; the various metal salts. And virtually all of these products, organic and inorganic alike, found use only in the processing and finishing of industry's age-old natural raw materials.

Since the early 'thirties, however, chemists have been synthesizing, in increasing quantity and variety, the raw materials themselves. They have been sorting and juggling the complex carbon, hydrogen and oxygen molecules that comprise all organic matter—living animal and vegetable matter, or matter that once lived but has long since turned to coal or petroleum. They have been combining the new molecular structures obtained with the common molecules of air and water to arrive at still other structures. They have been turning out new materials that were not merely unheard of but actually undreamt of a dozen years ago.

Products and processes in the field of organics and elsewhere that made their laboratory or commercial debuts in 1939 are far too numerous to list and describe in their entirety here. In hitting the high spots, though, it is of interest to note that by no means all of the year's more important developments were confined to this country or to companies that we normally think of as comprising the chemical industry. . . .

FIBRES—*Nylon,* the new synthetic silk which is in many ways superior to the natural product and of which du Pont began commercial production last month; biggest market will be women's hosiery.—*Vinyon,* whose raw material, made from an acetylene base by Union Carbide, will be produced in fibre form by American Viscose; product is not unlike Nylon but is expected to find its chief use in industrial felts and filter cloths.—*Lanitol,* a wool substitute new to this country though introduced several years ago in Italy; made of skim milk and formaldehyde, it lacks the strength and moisture resistance of wool. The U. S. Department of Agriculture has just patented a process believed superior to the Italian one.—*Pe Ce,* another silk substitute similar to Nylon and Vinyon and produced by Germany's I. G. Farbenindustrie.—*Liolan,* a casein fibre also made in Germany; produced from slaughterhouse waste (a tip to Armour, Swift, et al).—Improved *rayon fibres* by Celanese, Viscose and others.—Another *artificial silk* produced by the Japs, of all people, who are also turning out two new *synthetic wools,* one a casein product from fish, the other made from minerals; latter is claimed to have the elasticity and dyeing qualities of sheep's wool.

Westinghouse Photo

with four times the strength.—*Soybean wool* by Glidden; it is not as strong as the natural product but is moth resistant and costs less than half as much.

PLASTICS—***Zein,*** a corn-base plastic made by Corn Products; is source of another wool-like fibre.—*Lucite* (du Pont) and *Styron* (Dow); crystal clear, these plastics in rod form will conduct light around corners, are useful in surgery and make good insulators. Styron, together with Dow's *Ethocel,* is also being made up into building blocks.—*Lignin plastics,* developed by U. S. forestry laboratories, cost only about a quarter of the price of the better known synthetics. Made from sawdust, they have adequate tensile and compressive strength for most uses, are good insulators, absorb little water, and are easily machined; believed more likely to develop new markets of their own than to displace other plastics.

MISCELLANEOUS—*Sulfapyridine,* pneumonia cure and latest member of the amazing sulfanilimide family which in the past three years has revolutionized chemotherapy.—***Butadiene,*** a petroleum product now obtainable at low cost through the catalytic (Houdry) refining processes and believed to be the best source of synthetic rubber; may cut into the market of du Pont's older, higher cost *Neoprene.*—Commercial Solvent's *nitroparaffins,* made from petroleum hydrocarbons and expected to open up a whole new field of synthetic organics; commercial production will begin next spring.—*Vinyl acetal,* the new safety glass binder developed by Carbide, together with several other concerns; it is highly elastic and moisture resistant. — Victor's *V-90,* a slow-acting leavening agent; and *tetrasodium pyrophosphate,* a new soap builder that is also produced in quantity by Allied Chemical, Monsanto and Westvaco Chlorine.—*Vinylidene chloride,* made by Dow from crude oil and brine, a low-cost elastic substance that can be treated to produce artificial leather, soft yarns, strong cables or hard plastics. — *Synthetic vanilla,* produced by Marathon Chemical from pulp mill waste. — The *float-and-sink process* by which du Pont has so reduced the cost of

Courtesy Monsanto Chemical Co.

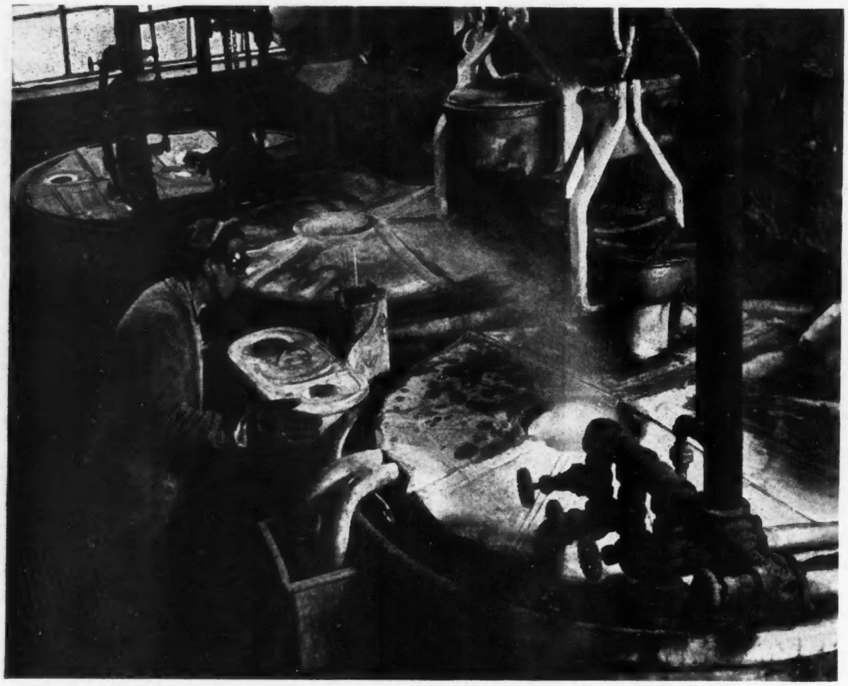
Electric chlorine cells in operation.

separating coal from impurities as to bring at least one heretofore submarginal mine back into operation.—Cyanamid's *di-cyandiamid* and *melamine* which may presage the opening of still another field of synthetic organic chemicals. . . .

And so on almost ad infinitum, for the difficulty lies not in the listing but in finding a place to stop. The chemical industry itself—and more and more that term must be broadened to include the petroleum, rubber, pulp and paper, dairy and other industries—shows no signs at all of stopping or even slowing down in its search for and discovery of new products and processes. Indeed, the surface has as yet been barely scratched in the realm of synthetic organics; chemistry, for all its rapid strides of the 'thirties, holds out greater promise than ever for the 'forties.

II. Declaration of Independence, 1940

At one time largely dependent on the outside world for its supply of many vital chemicals, this country first began to stand on its own feet twenty-five years ago when imports of German aniline dyes were suddenly



Courtesy du Pont Co.

An operator testing sulphuric acid from the coolers at the Grasselli Works of E. I. du Pont de Nemours & Co. in Philadelphia.

cut off by the World War. These we shortly learned how to make for ourselves and have done so ever since. Self-sufficiency has meanwhile been extended to one chemical product after another and, in recent years especially, progress has been rapid.

Exton (Nylon's twin) will soon replace in most kinds of brushes hog bristles imported from China. Similarly, our own tung orchards, together with Sherwin-Williams' new dehydrol and a similar substitute by Bakelite (Carbide), are gradually reducing our dependence on Chinese tung oil. Natural rubber from the East Indies is still far cheaper than any synthetic rubber thus far developed but in a pinch we could fall back on Neoprene or Standard of New Jersey's butadiene product.

Rayon has already usurped most of silk's former market and, if Nylon and Vinyon live up to expectations, silk imports will before long fade away to nothing. Synthetic wool substitutes, while still in the early developmental stage, may in the not too distant future render us largely independent of the natural product.

Freeport Sulphur's Cuban manganese properties, now economically workable due to new extraction and refining processes, mean that we no longer need rely so heavily on Russian supplies. The recent development of domestic potash deposits by American Agricultural, Potash Co. of America, U. S. Potash and others leave us largely independent of German imports. The same is true of salt cake, which Mathieson Alkali is now producing synthetically at its new Lake Charles plant.

But the story of chemical independence does not end there. We are now not only in a position to care for practically all of our own needs but, as a result of the war, have found sudden access to important markets formerly supplied in large part by European belligerents.

Japan has been actively seeking our heavy chemicals, notably caustic soda, but ultimate opportunities in this market are not thought to be overly encouraging since the Japanese have a pretty fair chemical industry of their own.

Latin American prospects are undoubtedly better. Before the war, Germany was an important supplier of chemicals to countries below the Rio Grande, the bulk of its sales being in dyes, pharmaceuticals and specialties, together with smaller amounts of a few industrial chemicals. Britain furnished a considerable part of the alkali and industrial chemical market while France shipped important amounts of medicinals and toilet preparations. Best chances for a windfall in the Latin American market, assuming exchange problems can be solved, would appear to lie with such well diversified companies as Allied Chemical, Cyanamid, Dow, du Pont and Monsanto, and with specialized medicinal and pharmaceutical concerns such as Abbott Laboratories and Heyden Chemical.

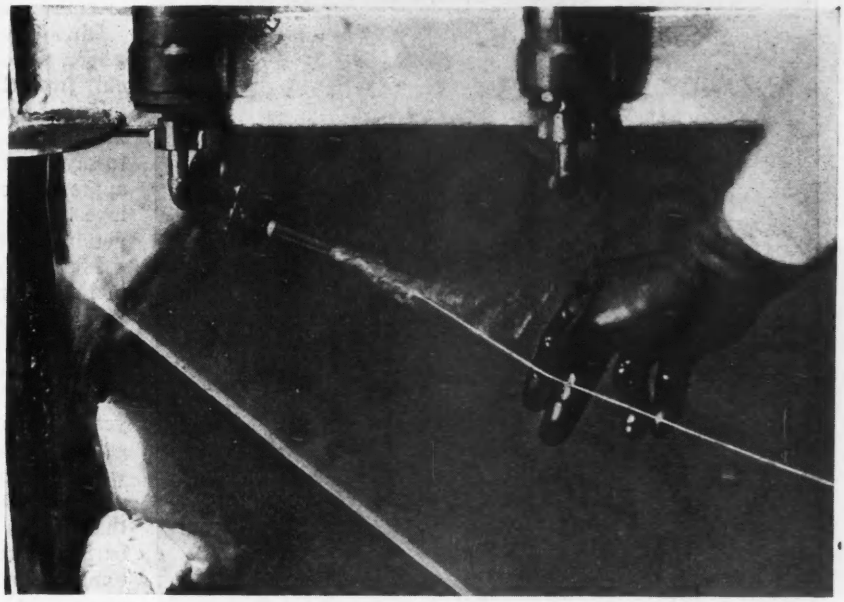
III. Formula for Profits

To think of the chemical industry as something fairly homogeneous like the steel or automobile industries is to overlook its many sided nature and its far reaching ramifications. As already noted, numerous other major industries are rapidly being drawn into modern chemistry's orbit. And even among those units commonly thought of as belonging to the chemical group proper, there is a wide diversity of activity. Whereas a few concerns are active in all major branches, others confine their activities to only one or two divisions; even the diversified companies, moreover, vary in the emphasis they place on one division or another.

But there are two characteristics that all of the more progressive and better situated chemical companies have in common. The first, stressed at the outset of this article, is an indefatigable penchant for research that bears fruit in a continual flow of new products and processes or improvements in quality or cost of existing products and processes. The second, without which the first would be of little importance, is a policy of progressive price reductions that is at once cause and effect of steadily increasing consumption.

A catch-phrase of the industry is that "chemical prices never go up." Like most catch-phrases, this one is not altogether true. Prices do rise cyclically as in the latter part of 1939 (see chart at bottom of page 409). But somehow they never seem to get quite back to their previous major cyclical peak. Thus, chemical quotations currently, as measured by the weighted index of

Chemical & Metallurgical Engineering, are about 2 per cent below the 1937-38 top though consumption, be it noted, bettered the best 1937 levels early last fall. Top 1937-38 prices, moreover, were not only more than 10 per cent under the 1929 average but were also but negligibly higher than the average for deflationary 1931. Which offers some explanation of why consumption has exceeded that of 1929 in each of the past four years excepting only the depression year 1938.

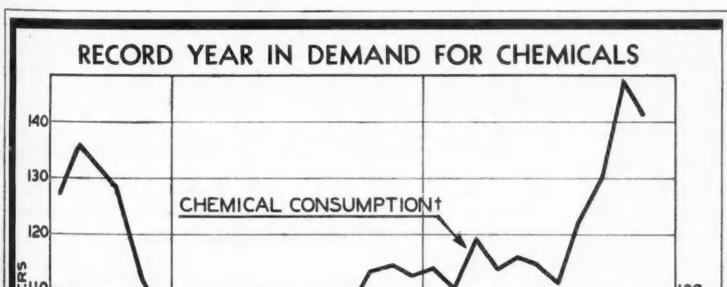


Courtesy du Pont Co.

Above is shown the transformation of viscose liquid into a rayon thread.

Needless to say, price reductions have been most spectacular among newer products which, for the most part, tend more to consumers' than to producers' goods and where elasticity of demand is most readily demonstrable. Among the older lines, the price situation is generally stable and orderly though in some cases—the alcohols for example—some sporadic gyrations are not unknown.

The chemical buying stampede of last fall did not represent war orders but rather war frightened domestic orders. That this boom has not brought about a particularly unhealthy situation with respect to consumers' inventories is due largely to the fact that chemical makers rationed supplies according to legitimate needs, refusing speculative orders wherever detected. Overseas demand has been by no means lacking (see chart on page 410) but the industry has followed the sound policy of serving home customers first and in some cases has turned down export business even at premium prices.



Foreign demand may be utilized, however, to cushion operations as domestic buying tapers off. The chances that it will taper off somewhat this quarter in line with a prospective moderate slackening in general industrial activity are fairly clear.

Longer range prospects, on the other hand, leave little to be desired. The chemical industry has always been fortunate in that labor wages comprise but a small part of overall costs—probably little over 10 per cent. By far the biggest item, accounting for perhaps 60 per cent of outlays, is that of raw materials. But even a considerable inflation of commodity prices would not seriously inconvenience the industry. So many modern chemicals come from limestone, brine, phosphate rock and so on, of which the industry has adequate owned supplies, and so many others from such common and plentiful sources as air, water, coal and oil, that for the chemist the best things in life are, indeed, free.

As for current prospects of the principal product divisions, a firm tone prevails in sulphuric acid with volume limited mainly by producers' capacity to meet demand; some easing in buying may be noted later in the quarter, however. A fairly tight position continues in potash pending the ability of American producers to take up the remaining slack between domestic needs and former German imports. The export market for alkalis has become somewhat unsettled recently as a result of competitive influences. Outlook for industrial gases depends largely on continued activity in the steel and other heavy industries. Synthetic organics, often oblivious of minor cyclical influences

Courtesy Monsanto Chemical Co.

One of the steps in manufacturing sulfanilamide. Partially drying the crystalline product in a centrifugal.

due to the strength of underlying secular forces, continue to point upward.

IV. Marketwise

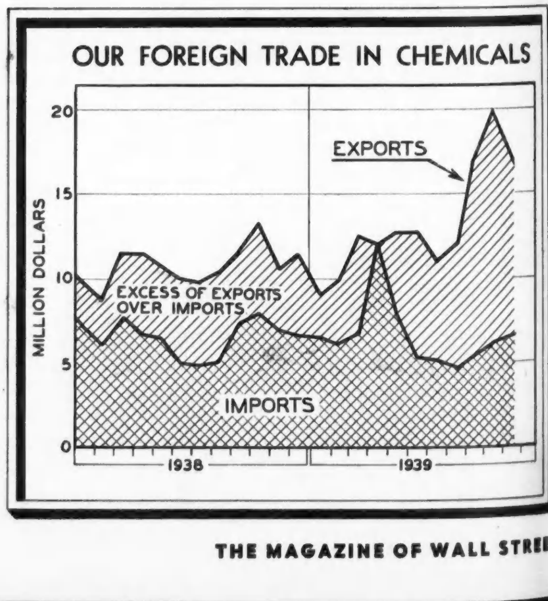
Though the chemical industry has just completed its most profitable quarter on record, market prices of its leading equities are, on average, well below the peak levels of 1936 and even further below the dizzy, fictitious values of 1929. Nevertheless, the performance of not a few individual issues has been outstanding. Stocks of those companies for which 1939 earnings reached a new all-time peak—best bets on this score among the larger concerns are Dow, du Pont and Hercules—have shown up particularly well.

Only du Pont, which had the dubious advantage in 1929 of being the apple of all speculative eyes, has failed to better its mark of that year. Dow, though still 10 per cent under its 1937 peak, today sells for nearly double its top 1929 figure. Hercules' 1939 high of 101½ (it is back to 90 now, having slid off along with the other more obvious war babies after last September's splurge) was a brand new all-time top and more than 50 per cent over 1929. On the other hand, American Cyanamid, for which last year may also have been its best to date, is quoted at well under half its '29 high, while Monsanto, still appreciably short of its 1937 earnings record, is now valued at little less than its new top figure of 114¾ reached in the autumn rise of last year.

Obviously, in the chemical industry as elsewhere, selectivity is of utmost importance not only from the standpoint of earnings, dividends, financial position, etc., but with respect to market action as well. It is probably trite enough to say identical earnings seldom command even approximately equal prices, but it is one of those investment maxims whose repetition is not only permissible but desirable.

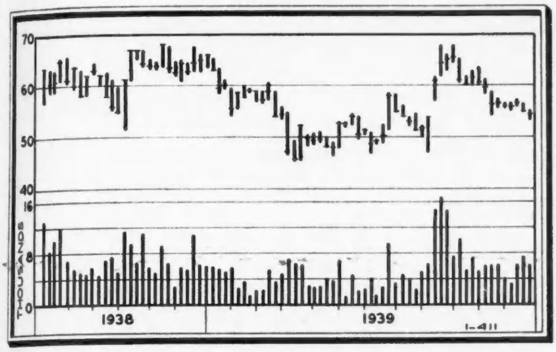
Marketwise, the group as a whole fared well in 1939 as measured against the rest of the list. Using this publication's index of 316 stocks and the average of the nine chemicals that comprise one of its 43 component groups, we find that while the market at large rose 44 per cent from the year's low point to its high, the chemical group gained 52 per cent. Moreover, the latter's advance has been comparatively well maintained since its reaction from last fall's top did no more than match that of the broad average. Ordinarily, however, the chemicals are subject to somewhat narrower cyclical swings than the rest of the market. Thus, from the low of 1938 to that year's high, they gained but 60 per cent as compared with a rise of 76 per cent for the list in general; and from the high point of 1938 to the low of 1939 they lost but 30 per cent as against a drop of 34 per cent for the market.

It is not surprising, of course, to find the general run of shares typically outswinging the chemicals. The earnings and dividend stability of the latter places them definitely out of the running with the more speculative market comets when the general business trend is upward, just as it places them among the more desirable issues when all is not well with business. Important intensification of Europe's war could, of course, find them again in the forefront of any resultant rise in stock prices. But, war or peace, the best and surest profits in the chemicals will derive from their long term upward trend of sales and earnings; typically steady and frequently generous yields in the interim should make the waiting period a pleasant one.



Ten Leaders in the Chemical Industry

AIR REDUCTION



BUSINESS: Operating 132 plants and 585 warehouses scattered throughout the country, Air Reduction is second only to Union Carbide as a producer of industrial gases and welding equipment. Selling mainly to the steel and railroad industries as well as to a wide range of metal working trades, it probably accounts for more than 40 per cent of domestic business in the field. The company also makes electric welding equipment and, through Pure Carbonic, has a stake in the dry ice and liquid carbon dioxide field. In addition, it is expanding its chemical operations through the acquisition of Ohio Chemical, one of the country's largest producers of medical gases, chemicals and equipment. Roughly two-thirds of entire revenue is derived from oxygen and acetylene gases.

FINANCIAL POSITION: Capital structure is simple, there being no funded debt or preferred stock outstanding. Giving effect to the issue of 157,000 additional shares in acquisition of Ohio Chemical, equity capitalization consists of 2,720,992 no-par shares. Treasury position is strong: at the end of 1938, current assets of $17,616,731, including cash items of nearly $12,000,000, compared with only $2,510,727 of current liabilities.

OUTLOOK: The company is currently cashing in heavily on the high rate of activity in the steel, railroad, motor and other metal working industries. Fourth quarter earnings are estimated at upwards of 75 cents, indicating full year results between $2.15 and $2.25 per share. The electric welding division, now operating well above previously anticipated capacity, will yield no profits this year due to write-offs of old machinery, but should be a source of earnings in 1940. Thus, an overall earnings rate surpassing the previous record high reached in 1937 is in prospect.

MARKET ACTION:	Air Reduction	Market Average	AR's moves in relation to the market
'37 high to '38 low	50% decline	64% decline	28% narrower
'38 low to '38 high	70% advance	76% advance	8% narrower
'38 high to '39 low	33% decline	34% decline	3% narrower
'39 low to '39 high	50% advance	44% advance	14% wider

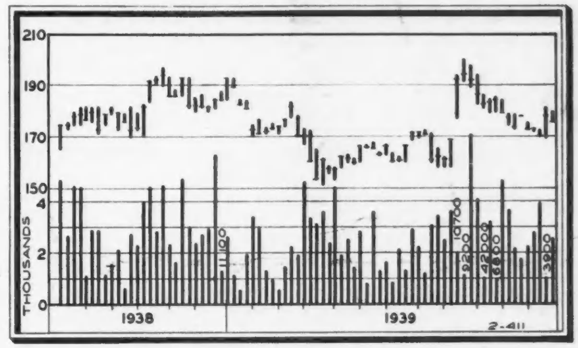
COMMENT: AR's greater volatility than the general list in this year's advance cannot be ascribed entirely to war and the heavy industry boom, as its trend in this direction has been apparent for two years.

Long Term Record

Year	Net Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929	$21.8	$6.0	$2.58	$1.33	74½-25⅝
1930	19.5	5.3	2.11	1.50	52⅛-29¼
1931	15.6	3.8	1.51	1.50	36½-15⅞
1932	11.7	2.3	.91	1.00	21¼-10¼
1933	13.4	3.2	1.27	1.25	37½-15¾
1934	16.2	4.1	1.66	1.50	37¾-30½
1935	20.9	5.3	2.10	1.83	57¾-34¾
1936	27.8	7.1	2.79	2.50	86½-56⅛
1937	30.8	7.3	2.86	3.00	80¼-44½
1938	23.7	3.7	1.47	1.50	67⅞-40
1939 (9 Mos.)	20.0	3.5	1.37	1.75	68 -45¼

Thumbnail Stock Appraisal

ALLIED CHEMICAL & DYE



BUSINESS: Second largest domestic chemical producer, this company is easily the industry's most secretive. It is roughly estimated, however, that more than 50 per cent of revenues are derived from sales of heavy chemicals and the remainder from coal tar products, dyes and pharmaceuticals. Its markets extend to practically every domestic industry, the most important being textiles rayon, glass, and soap.

FINANCIAL POSITION: Since retirement of the preferred stock in 1936, capitalization has consisted solely of 2,214,099 shares of no-par common, there being no funded debt authorized or outstanding. Financial policy has always been highly conservative. Current assets at the end of 1936, including some $47,000,000 in cash and Governments, amounted to $96,852,651, or nearly ten times current liabilities of $9,725,652.

OUTLOOK: ACD startled investors this year by paying out $9 in dividends, largest distribution in its history. A logical inference is that final quarter earnings carried full year results close to or beyond the record profit levels of 1936. The company's principal products continue in the van of the upsurge in chemical demand and a high rate of operations seems assured as long as industrial activity in general maintains its pace.

MARKET ACTION:	Allied Chemical	Market Average	ACD's moves in relation to the market
'37 high to '38 low	52% decline	64% decline	19% narrower
'38 low to '38 high	59% advance	76% advance	22% narrower
'38 high to '39 low	23% decline	34% decline	33% narrower
'39 low to '39 high	32% advance	44% advance	27% narrower

COMMENT: If there were not ample evidence elsewhere to mark Allied Chemical as essentially a blue chip investment issue rather than a trading or speculative vehicle, its market action alone would be sufficient. Consistently less volatile than the list as a whole, ACD's price stability stems largely from its consistency of dividend payments over an extended period of years in the face of fairly wide earnings fluctuations. Though the stock does not offer quite as much in the way of secular growth possibilities as some others in the field, it is moderately attractive for income.

Long Term Record

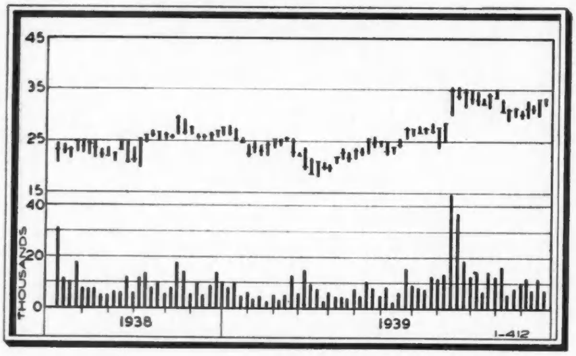
Year	Gross Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929	Unreported	$30.2	$11.43	$6.00	354¾-204¾
1930	"	25.1	9.31	6.00(a)	343 -170¼
1931	"	18.9	6.74	6.00(a)	182¾- 64
1932	"	11.4	3.62	6.00	88¼- 42½
1933	"	14.6	5.50	6.00	152 - 70¾
1934	"	17.5	6.83	6.00	160¾-115⅛
1935	"	21.7	8.71	6.00	173 -125
1936	$165.2	25.3	11.44	6.00	245 -157
1937	177.3	24.8	11.19	7.50	258½-145
1938	143.5	13.1	5.92	6.00	197 -124
1939	(No interim reports)			9.00	200½-151½

(a)—Plus 5% in stock.

Thumbnail Stock Appraisal

Ten Leaders in the

AMERICAN CYANAMID



BUSINESS: Originally a fertilizer company, American Cyanamid has emerged from a ten-year expansion program as one of the better diversified units in the chemical field. Principal products now include, in addition to fertilizers, acids, dyes, lacquer chemicals, solvents, cyanides, pharmaceuticals, insecticides, plastics, gypsum lines and many others. Chief outlets are the agricultural, drug, building, steel, rubber, auto, mining, paper, leather and textile fields. Plants, numbering more than 30, are strategically located with respect to raw material supplies and markets throughout the country.

FINANCIAL POSITION: Capital structure is comprised of $12,400,000 of funded debt, 208,910 shares of $10 par value 5 per cent preferred stock currently convertible into two-ninths common share, 65,943 shares of Class A common and 2,552,426 shares of Class B. The two classes of common are identical except that the B has no voting power. Treasury position as of a year ago was strong, current liabilities of $5,513,595 being well covered by current assets of $33,653,471 including cash and marketable securities of nearly $11,000,000.

OUTLOOK: Cyanamid's sales have regained and perhaps surpassed the best levels of recent years and it is probable that 1939 operating results approached or exceeded the previous peak achieved in 1937. Further extension of current gains is forecast next year barring an important letdown in general business activity. Including $1 payable in preferred stock, 1939 dividends of $1.60 were well above the total of any year since 1930.

MARKET ACTION:	American Cyanamid	Market Average	ACYB's moves in relation to the mkt.
'37 high to '38 low	58% decline	64% decline	9% narrower
'38 low to '38 high	100% advance	76% advance	33% wider
'38 high to '39 low	40% decline	34% decline	18% wider
'39 low to '39 high	95% advance	44% advance	116% wider

COMMENT: Except for its somewhat greater percentage decline from the 1938 high to the 1939 low, Cyanamid has been consistently outperforming the market. Good resistance has been displayed on weakness and outstanding buoyancy on strength.

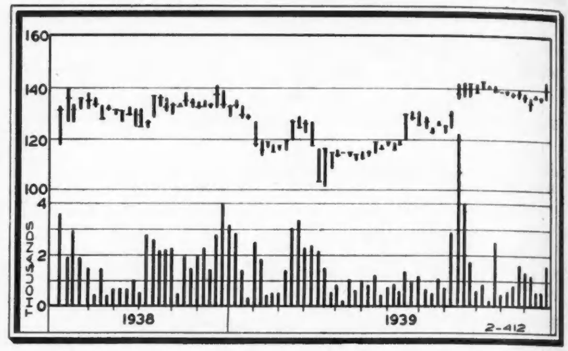
Long Term Record

Year	Operating Income (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range(c)
1929	$ 4.0(a)	$2.3(a)	$1.56(a)	$1.60(a)	80 -20¼
1930	7.5(a)	4.6(a)	1.87(a)	.60(a)	37 - 6⅝
1931	4.3(b)	.5(b)	.21(b)	.40(b)	12¾- 2⅝
1932	3.1	.4	.14	None	8½- 1⅝
1933	4.8	2.5	.99	None	16½- 3¼
1934	5.7	2.5	.99	.25	22½-14⅝
1935	7.7	4.1	1.61	.55	30 -15
1936	8.8	4.5	1.77	1.00	40¾-29¼
1937	10.1	5.3	2.09	1.60	37 -17⅝
1938	7.9	2.5	.91	.45	30¼-15½
1939 (9 Mos.)	8.1	3.3	1.25	1.60	35¾-18⅜

(a)—Fiscal year ended June 30. (b)—Eighteen months ended Dec. 31. (c)—Class B stock.

Thumbnail Stock Appraisal

DOW CHEMICAL



BUSINESS: The five component elements of salt brine—sodium, magnesium, calcium, chlorine and bromine—are the base materials for the great majority of the wide variety of chemical products turned out by this company whose extensive Michigan brine deposits are sufficient for literally hundreds of years. Operations are for the most part centered at a single plant located at the site of these deposits. Company's chief lines include chlorine and caustic soda, aniline dyes, organic solvents, phenol, insecticides, medicinals, calcium chloride, plastics, magnesium and alloys.

FINANCIAL POSITION: The company's 1,034,988 no-par common shares are preceded by 60,000 shares of $100 par $5 preferred stock and $5,000,000 of funded debt. As of the end of the last fiscal year —May 31, 1939—the balance sheet revealed current assets of $14,318,708, including $3,722,180 in cash and Governments, as compared with current liabilities of $2,650,627.

OUTLOOK: One fly in Dow's ointment is the increasing use of the Houdry and other catalytic oil refining processes by means of which high octane gasolines are being obtained by regular refining methods which may in time cut into Ethyl-Dow's business. In other lines, however, the company's progress is such as make for considerable confidence in the course of future operations and profits. The company has been particularly active, and will undoubtedly continue so, in the development of new lines.

MARKET ACTION:	Dow Chemical	Market Average	DCC's moves in relation to the market
'37 high to '38 low	45% decline	64% decline	30% narrower
'38 low to '38 high	60% advance	76% advance	21% narrower
'38 high to '39 low	28% decline	34% decline	18% narrower
'39 low to '39 high	41% advance	44% advance	7% narrower

COMMENT: Marketwise, as befits its comparative stability of earnings and dividend payments, Dow shows somewhat less volatility than the general run of stocks though this tendency has apparently been diminishing of late. The issue remains primarily an investment medium, however, and, though yield is low, longer range appreciation possibilities are attractive.

Long Term Record

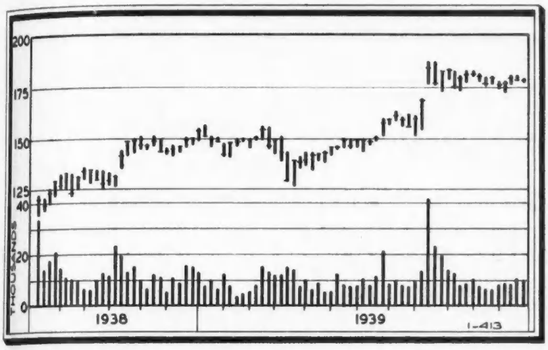
Year(a)	Net Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929	$13.8	$2.4	$2.79	$1.33⅜	75¾-42⅝
1930	16.3	2.8	2.36	1.33⅜	66⅝-32
1931	12.5	2.1	2.03	1.33⅜	34⅜-20
1932	10.8	1.5	1.39	1.33⅜	26⅝-14⅞
1933	17.1	3.6	3.63	1.33⅜	52 -19¼
1934	16.3	3.4	3.43	2.00	87½-46¼
1935	18.8	4.4	4.48	2.00	105½-80⅛
1936	25.6	4.1	4.15	3.05	142¼-94⅛
1937	24.9	3.9	3.91	3.00	159¼-79⅛
1938	26.7	4.2	3.76	3.00	141 -87⅞
1939 (3 Mos.)	....	1.4	1.33	1.50(b)	143½-101⅛

(a)—Fiscal year ended May 31 of following calendar year. (b)—Paid to date this fiscal year.

Thumbnail Stock Appraisal

Chemical Industry (cont'd)

DU PONT DE NEMOURS



BUSINESS: Largest of the chemical companies, du Pont also derives a substantial portion of net income from dividends on its 10,000,000-share holding of General Motors. Principal products are organic chemicals, fabrics and finishes, rayon, cellophane, inorganic heavy chemicals, explosives, electrochemicals and specialties, ammonia pigments and plastics. Company remains a leader in new product and process research, its latest major innovation being nylon.

FINANCIAL POSITION: The company's entire issue of 6% $100 par debenture stock formerly outstanding to an amount of 1,092,948 shares, has been called for redemption at $125 on January 25, 1940. As of October 30, however, almost all of the issue had already been exchanged for $4.50 preferred (no par; callable at 120) of which, as of the above date, there were 1,684,847 shares outstanding. As du Pont has no funded debt, the preferred issue, giving effect to retirement of the debenture stock, will represent the only claim to earnings senior to that of the 11,056,371 shares of $20 par common. Including cash of $113,000,000, current assets on June 30, 1939, amounted to more than $201,000,000 against current liabilities of about $33,000,000.

OUTLOOK: Full year 1939 earnings are estimated at upwards of $7.80 per share, surpassing the previous profit record of 1936 by a comfortable margin. Dividend payments topped the previous peak year by an even greater amount. With both unit and dollar volume at the best levels in the company's history, continuation of the current excellent showing is contemplated barring any important letdown in general industrial activity. Continuation of such recent product innovations as neoprene, a rubber substitute that will soon take its place beside nylon, lucite plastics, and earlier introductions, virtually assures du Pont a prominent place in the van of the industry's secular expansion.

MARKET ACTION:

	du Pont	Market Average	DD's moves in relation to the market
'37 high to '38 low.......	50% decline	64% decline	22% narrower
'38 low to '38 high.......	71% advance	76% advance	7% narrower
'38 high to '39 low.......	25% decline	34% decline	27% narrower
'39 low to '39 high.......	49% advance	44% advance	11% wider

COMMENT: DD outstripped the market on the upside in 1939, though it had been consistently less volatile previously.

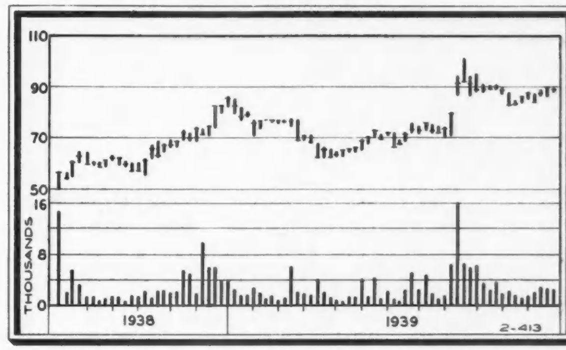
Long Term Record

Year	Net Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929..........	Unreported	$78.2	$6.99	$5.85	231 - 80
1930..........	"	56.0	4.52	4.70	145¼- 80½
1931..........	"	53.2	4.30	4.00	107 - 50
1932..........	$123.0	26.2	1.81	2.75	59¾- 22
1933..........	153.5	38.9	2.93	2.75	96⅜- 32⅛
1934..........	179.4	46.7	3.63	3.10	103⅞- 80
1935..........	220.0	62.1	5.02	3.45(a)	146½- 86⅝
1936..........	260.3	89.9	7.53	6.10	184¾-133
1937..........	286.0	88.0	7.25	6.25	180⅛- 98
1938..........	235.4	50.2	3.74	3.25	154¾- 90½
1939 (9 Mos.)..	212.1	62.8	5.08	7.00	188½-126¼

(a)—Plus 1/55 share of General Motors.

Thumbnail Stock Appraisal

HERCULES POWDER



BUSINESS: Originally Hercules sole product, explosives now account for only about a quarter to a third of the company's sales. Principal divisions of the concern as currently constituted are cellulose products, chemical cotton, naval stores, acids, alkalis, ammonia, cleansers and varied paper maker's chemicals such as sizes, coatings, etc. In addition to the paper industry, chief outlets are the auto, mining, textile and building industries. About a fifth of output is taken by overseas customers though the war is likely to raise this percentage somewhat. Two plants are located in Great Britain.

FINANCIAL POSITION: There being no funded debt outstanding, only claim to earnings ahead of the 1,316,710 shares of no-par common is that of the 87,488 shares of $6 preferred. The company's balance sheet of September 30, 1939, indicates a strong treasury position, $23,000,000 of current assets, including over $11,000,000 in cash, comparing with about $2,900,000 of current liabilities.

OUTLOOK: Per share profits for 1939 are thought to have been in the neighborhood of $3.90 to $4 which would mean an advance of roughly 25 per cent above the previous all time earnings peak. The year's excellent showing has been almost entirely due to expanding sales and lower costs in the company's basic lines. With business in the latter divisions well established, Hercules continues to pave the way for future profit increases with the development of new wrinkles in other lines. More recent of these include Staybellite, a synthetic resin expected to find wide use in the manufacture of varnishes, and a chlorinated rubber for protective coverings, Tornesite, which is currently getting into large scale production.

MARKET ACTION:

	Hercules	Market Average	HPC's moves in relation to the market
'37 high to '38 low.......	53% decline	64% decline	17% narrower
'38 low to '38 high.......	104% advance	76% advance	37% wider
'38 high to '39 low.......	28% decline	24% decline	17% wider
'39 low to '39 high.......	61% advance	44% advance	39% wider

COMMENT: Except for a slightly greater percentage decline from the 1938 high to the 1939 low, Hercules has consistently acted better than the market as a whole, its best relative performance occurring in the 1939 rise. Though dividend yield is meagre, further long term appreciation prospects mark the issue as attractive.

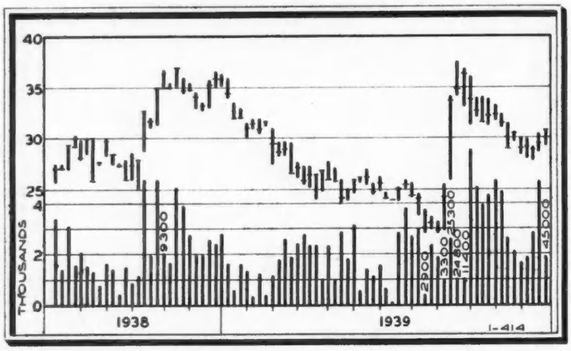
Long Term Record

Year	Net Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929..........	$33.0	$4.4	$2.98	$2.00	65 -40
1930..........	25.9	2.4	1.30	1.50	42½-25
1931..........	20.5	1.4	.54	1.50	29 -13
1932..........	17.7	.9	.12	1.00	14¾- 7
1933..........	22.0	2.4	1.39	1.12½	34⅜- 7½
1934..........	25.8	3.0	1.97	1.75	40⅞-29½
1935..........	29.7	3.2	2.12	1.75	45 -35½
1936..........	36.7	4.3	3.16	2.62½	75 -42
1937..........	44.6	4.4	2.97	3.00	92½-50
1938..........	32.8	3.1	1.95	1.50	87 -42¾
1939 (9 Mos.)..	28.4	3.6	2.47	2.85	101½-63

Thumbnail Stock Appraisal

Ten Leaders in the

MATHIESON ALKALI



BUSINESS: Fifth largest factor in the production of alkalis, Mathieson's most important products are chlorine, sodium bicarbonate, caustic soda, soda ash, ammonia and sodium sulphate. Additional specialties include dry ice, hypochlorites, fused alkali and sulphur dichloride. A comparatively new plant in Lake Charles, Louisiana, though it does not yet contribute importantly to earnings, gives the company a stake in increasingly promising southern markets and supplements its operations at Saltville, West Virginia, and Niagara Falls, New York. Production facilities are well located with respect to raw material and power supplies and also with regard to important markets which include the soap, paper, glass, rayon and oil refining industries. Sodium sulphate and gypsum products are also sold.

FINANCIAL POSITION: The company's capital structure is relatively simple. There is no funded debt outstanding and but 23,777 shares of $100 par $7 preferred stock. Equity capitalization is comprised of 828,171 common shares without par value. The balance sheet of a year ago revealed cash alone of $1,116,310 exceeding current liabilities of $678,789, while total current assets amounted to $4,177,350.

OUTLOOK: Firmer prices for chlorine and caustic soda have contributed to earnings improvement in the latter part of 1939 and the chances are that further gains in operating results in the closing months of the year lifted the full year total above the levels of 1938. Having recently undertaken the manufacture of synthetic salt cake, Mathieson finds demand for the product considerably improved now that German supplies have been cut off and, accordingly, has expanded production facilities. The product finds its widest market in the southern Kraft industry.

MARKET ACTION:

	Mathieson	Market Average	AKL's moves in relation to the market
'37 high to '38 low	53% decline	64% decline	17% narrower
'38 low to '38 high	86% advance	76% advance	13% wider
'38 high to '39 low	42% decline	34% decline	24% wider
39 low to '39 high	79% advance	44% advance	80% wider

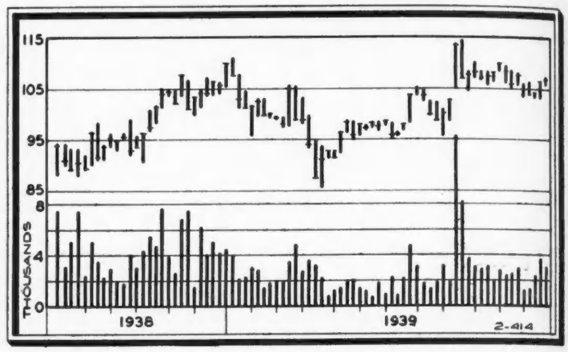
COMMENT: Mathieson has been outswinging the market in its major moves over the past year or so and did particularly well in the 1939 advance in the face of a mediocre earnings record.

Long Term Record

Year	Operating Income (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929	$3.6	$2.3	$3.31	$1.75	72⅜-29
1930	3.5	2.1	2.96	2.00	51⅞-30⅛
1931	2.6	1.4	1.88	2.00	31½-12
1932	1.9	0.7	0.86	1.75	29⅞- 9
1933	2.6	1.2	1.70	1.50	46⅝-14
1934	2.5	1.2	1.20	1.50	40¾-23½
1935	3.0	1.4	1.44	1.87½	33⅞-23¾
1936	3.7	1.6	1.76	1.50	42⅜-27½
1937	3.8	1.7	1.81	1.65	41¾-22
1938	3.0	1.0	1.01	1.50	36⅞-19¾
1939 (9 mos.)	2.1	0.6	0.61	1.50	37⅜-20¾

Thumbnail Stock Appraisal

MONSANTO CHEMICAL



BUSINESS: The food and plastics industries are normally Monsanto's largest customers, but it also sells to the drug, rubber, paint, steel, paper, petroleum and other trades. Its chief products, none of which accounts for more than a small fraction of total sales, include acids, alkalis, salt cake, coal tar intermediates, plastics, plasticizers, solvents, phosphoric acid, phosphates, pharmaceuticals and rubber chemicals. Foreign business ordinarily accounts for about one-sixth of total revenues and an even smaller share of net income. A progressive policy has been followed with acquisition of valuable allied units from time to time.

FINANCIAL POSITION: Equity capitalization, consisting of 1,241,712 shares of $10 par common, is preceded by 100,000 shares of no-par $4.50 preferred and $1,940,000 of subsidiary preferred; there is no funded debt authorized or outstanding. Including over $5,000,000 in cash, current assets as of September 30, 1939, totaled $20,522,323 against $4,639,803 of current liabilities.

OUTLOOK: By way of supplementing its older line business and obtaining increased diversification, Monsanto has entered the plastics field on an important scale within the past year or so. The acquisition of Fibreloid Corp. in 1938 was followed by the purchase in the spring of 1939 of Resinox Corp., third largest domestic manufacturer of phenolic plastics molding compounds. Though plastics operations were unprofitable in the first nine months of the year, this division was in the black last quarter; capacity operations in other principal lines probably served to lift full year results close to the previous all time profits peak reached in 1937. Though war orders are not expected to add importantly to the company's business, some further expansion of exports is looked for.

MARKET ACTION:

	Monsanto	Market Average	MTC's moves in relation to the market
'37 high to '38 low	38% decline	64% decline	41% narrower
'38 low to '38 high	64% advance	76% advance	16% narrower
'38 high to '39 low	22% decline	34% decline	35% narrower
'39 low to '39 high	34% advance	44% advance	23% narrower

COMMENT: Though Monsanto tends to lag behind the market on both bull and bear moves, this tendency is much less evident on the upside than on the down.

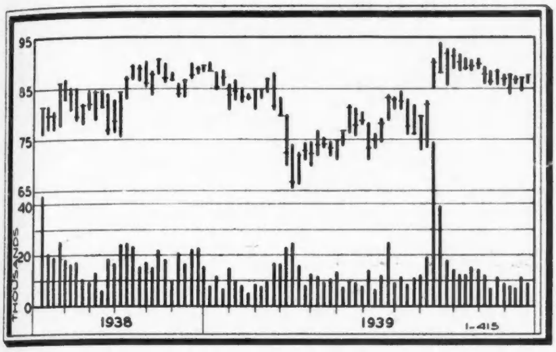
Long Term Record

Year	Net Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929	$17.1	$1.7	$2.12	$0.63	40½-23½
1930	13.5	0.7	0.85	0.63	31⅞- 9⅛
1931	13.1	1.3	1.50	0.63	14½- 8⅛
1932	11.4	1.0	1.19	0.63	15⅜- 6⅝
1933	15.5	2.2	2.57	1.16	41½-12½
1934	17.5	2.6	3.03	1.16	61⅝-37½
1935	24.7	3.8	3.85	1.50	94¾-55
1936	28.8	4.5	4.01	3.00	103 -79
1937	33.2	5.0	4.40	3.00	107½-71
1938	31.9	3.2	2.35	2.00	110 -67
1939 (9 mos.)	30.0	3.5	2.56	3.00	114¾-85¾

Thumbnail Stock Appraisal

Chemical Industry (cont'd)

UNION CARBIDE & CARBON



BUSINESS: This company's business is divided into four principal divisions as follows: (1) industrial gases and cutting and welding equipment; (2) carbon products—electrodes, batteries, motor brushes, etc.; (3) ferro-alloys and metals including chromium, columbium, calcium and silicon alloys, tungsten, vanadium and manganese; (4) synthetic organics covering a wide range of alcohols, esters, ethers, ketones, amines, organic acids—also Prestone, the remarkable new synthetic fabric Vinyon, and the recently developed vinyl resin safety glass binder.

FINANCIAL POSITION: Preceding the company's 9,277,788 shares of no-par common are $40,000,000 of 3 per cent debentures due in 1953 and placed privately in 1938 with three large insurance companies. About half of the proceeds were used for refunding purposes and the remainder to finance new plant construction and to add to inventories. The 1938 yearend balance sheet revealed a strong treasury position, cash alone of about $31,000,000 amounting to almost twice current liabilities of $17,600,000, and total current assets amounting to more than $107,500,000.

OUTLOOK: As its most important customers are the steel, metal working and railroad industries, all of which have been booming in recent months, Carbide cashed in heavily last quarter; results for the full year probably topped $3.75 per share, indicating a gain of at least 35 per cent over 1938 earnings. Oxygen sales are reported at new high levels and the company's new method of shipping liquid oxygen, incidentally, has revolutionized its use in many divisions of the metals trade. Ferro-alloy sales have also reached unprecedented levels in the past month or two. Barring any substantial decline in general industrial activity, Carbide's earnings gains should be extended further in coming months; longer range outlook remains inviting.

MARKET ACTION:	Union Carbide	Market Average	UK's moves in relation to the market
'37 high to '38 low	49% decline	64% decline	23% narrower
'38 low to '38 high	60% advance	76% advance	21% narrowe
38 high to '39 low	28% decline	34% decline	18% narrower
'39 low to '39 high	44% advance	44% advance	action identical

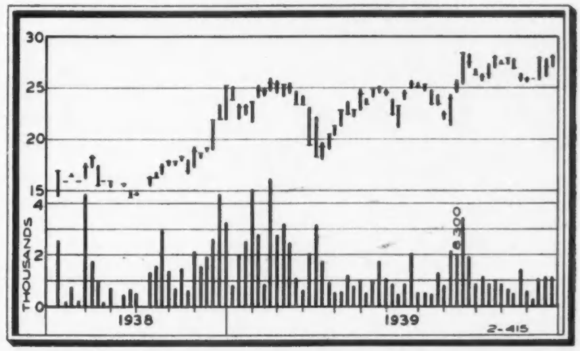
COMMENT: Typically subject to narrower swings than the list as a whole, Carbide this year kept pace with the market on the upside.

Long Term Record

Year	Net Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929	(Not	$35.4	$3.94	$2.30	140 -59
1930	Reported)	28.0	3.12	2.60	106⅜-52½
1931	"	18.0	2.00	2.60	72 -27⅛
1932	"	8.8	0.98	1.75	36⅜-15½
1933	"	14.2	1.59	1.05	51⅞-19¾
1934	$97.2	20.3	2.28	1.20	50⅞-35⅞
1935	120.0	27.3	3.06	1.55	75¾-44
1936	152.1	36.9	4.14	2.30	105¼-71⅝
1937	169.1	42.8	4.81	3.20	111 -61¼
1938	130.5	25.2	2.77	2.40	90⅞-57
1939 (9 mos.)	....	19.2	2.11	1.90	94¼-65½

Thumbnail Stock Appraisal

VICTOR CHEMICAL



BUSINESS: Much the smallest of the companies included in this group, Victor is nonetheless a leading producer of phosphoric acid and high grade phosphates, ranking second only to Monsanto in this division of the chemical field. About half of its output is taken by the highly stable food, dairy and pharmaceutical trades; in addition to these, however, it also sells to the textile, drug, oil, fertilizer, leather, steel and metallurgical industries. An important non-chemical by-product is Tuff-Lite, a lightweight aggregate for concrete construction. Plants are located at Chicago Heights, Ill., and West Nashville and Mt. Pleasant, Tenn.

FINANCIAL POSITION: Capitalization consists of $1,000,000 of funded debt, due serially in amounts of $100,000 per annum from 1940 to 1949, and 696,000 shares of $5 par common. Finances at the end of 1938 were in good shape; total current assets amounted to $3,330,352 while cash holdings alone of $1,192,186 were more than twice current liabilities of $532,261. Recent plant expansion has been conservatively financed through issue of both common stock and serial notes.

OUTLOOK: With earnings for the first nine months of 1939 topping those of the entirety of 1938, it is probable that full year profits bettered the best recent year, 1936, and possibly approached the previous record established in 1931. Like other aggressively managed chemical concerns, Victor's prospects rest upon a continuation of research activities that enabled it to introduce in 1938 tetrasodium pyrophosphate as a washing powder and soap builder—a major commercial innovation opening a broad new field of consumption; and, more recently, "V-90," a new type and superior leavening agent. Prospects are for further secular sales and earnings growth.

MARKET ACTION:	Victor	Market Average	VCW's moves in relation to the market
'37 high to '38 low	....	....	....
'38 low to '38 high	87% advance	76% advance	14% wider
38 high to '39 low	28% decline	34% decline	18% narrower
39 low to '39 high	51% advance	44% advance	16% wider

COMMENT: In its brief history on the Big Board, Victor has outperformed the rest of the market on both upside and down.

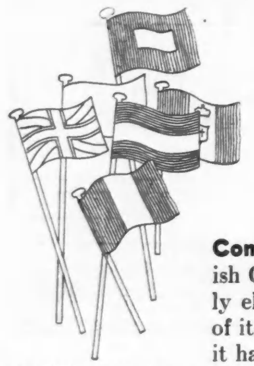
Long Term Record

Year	Net Sales (millions)	Net Income (millions)	Earned Per Share	Dividends	Price Range
1929	(Not	$0.7	$1.11	$0.37½	(Not
1930	Reported)	0.7	1.16	0.37½	Listed)
1931	"	0.9	1.40	0.50	"
1932	"	0.7	1.13	0.50	"
1933	"	0.7	1.09	0.50	"
1934	"	0.7	1.19	1.25	"
1935	$5.1	0.8	1.27	1.12½	"
1936	5.5	0.8	1.31	1.25	"
1937	5.7	0.7	1.01	1.12½	"
1938	6.7	0.7	1.05	0.90	25¼-13½
1939 (9 mos.)	....	0.7	1.06	1.40	28½-18¼

d—Deficit.

Thumbnail Stock Appraisal

On the Economic War Fronts



Interpreting the News Behind the News for the Business Man and the Investor

Complicated Motives. The British Government has laid down fairly elaborate rules for the handling of its nationals' securities, although it has not yet commandeered them as it did in the last war. Gist of the current ones is that if you are an Englishman you may sell American securities but you may not buy them. The only way to understand fully what they mean is to consider the proposition in sterling rather than in dollars. If you bought American Can at 100, since it is now 113 you presumably have a profit of 13 per cent. But if the pound has meanwhile slipped from $3.50 to $3.00 (and less) there is another more important profit to be considered. You paid for your stock in sterling, you think in sterling, and what you bought for £2,857 is now worth £3,766. The market for American Can may have gone up only 13 per cent, but to you the gain is substantially more. And that is the more reason for cashing the profit, particularly if like most Englishmen you are having a tough time paying your war taxes. On the other hand, if you are dubious about the war's development and think it may tax all of the Allies' resources to end it successfully, there is the income to consider. Paying $4.00 per share, American Can yields the Englishman £114 annually when the pound is quoted at $3.50 in New York. A slip in sterling to a $3.00 rate means that the same income in dollars is worth £133 on the other side. A drop to $1.75 in sterling automatically doubles the income you expected to receive from your investment. It is complicated, this international investment, and it is not always handled on a basis of sheer logic.

Belgian Imports. Among the nations in extremely delicate positions, Belgium manages to do fairly well. In November her imports of U. S. goods were 80 per cent higher than in October; the jump in imports from Argentina was only slightly less, from Britain considerably more than that. Interpretations of one or two month's figures are hazardous these days, but the Allies are undoubtedly aware of the possibilities. In our last issue we told about the shipment—very indirectly—of French iron to Germany and German coal to France, through neutrals. Aside from the fact that the Allies have less than the Nazis to gain through this traffic, it must be obvious that public opinion will not stand for any trade that looks at all disloyal.

Nylon Roams. It is rather naively rumored in London that a new rayon yarn called nylon will be manufactured by Imperial Chemical Industries and Courtaulds. There are still civilized countries willing to advance, and to pay royalties for the sake of the progress.

Anglo-Swedish Pact. It was no surprise to the world or to Germany when Sweden and England signed a trade pact. On Sweden's part it was no more than the historic attempt to retain economic health and prevent, if possible, any extension of European animosity to her. It is remarkable to think of her ability in the last war to remain aloof, though the supplier of Germany's most important raw material—iron. Pressure on all of the Scandinavian countries is today much greater, and likewise the chances that they will be drawn in on the side of the Allies. One of the peculiarities of twenty-five years ago, and apparently about to be repeated—Sweden would take anything but gold for her exports, though gold is the classical currency backing. And Sweden hints at her distrust of the pound sterling by refusing to make a link of the krona to that currency a part of the trade agreement with Britain. She evidently considers the dollar a better anchor, and may come around to a definite link with our money.

Hungry Island. Shades of the housewives' raid on American sugar stocks are revived by England's announcement that consumption of the commodity will be limited to 12 ounces per person per week, starting some time next month. The thing that must make most Englishmen uneasy is not cutting down on sugar but remembering that it was not until 1918 that sugar rationing was decreed in the last war. Restrictions on meat consumption will be irksome but not particularly serious as far as the man in the street is concerned. For further details as to how tight England's belt is to be drawn, see your daily newspaper and its list of freighters destroyed by submarine or plane. Consult this source also when checking the chances of American exports of agricultural products.

Ports Jammed. The free port at Staten Island, near New York, is worrying about the mechanics of shipping the orders the country has been hearing so much about. In asking for more pier space, the manager pointed out eighty airplanes, 3,000 trucks and a number of trench

diggers made by Le Tourneau and Caterpillar, all awaiting shipment to the front. Material moving here for immediate export can go to the free port and ignore the ordinary customs difficulties. Considerably more in the way of machinery and needed equipment are likely to go through this port in the next few months, and the preparations for a volume of traffic are going on swiftly.

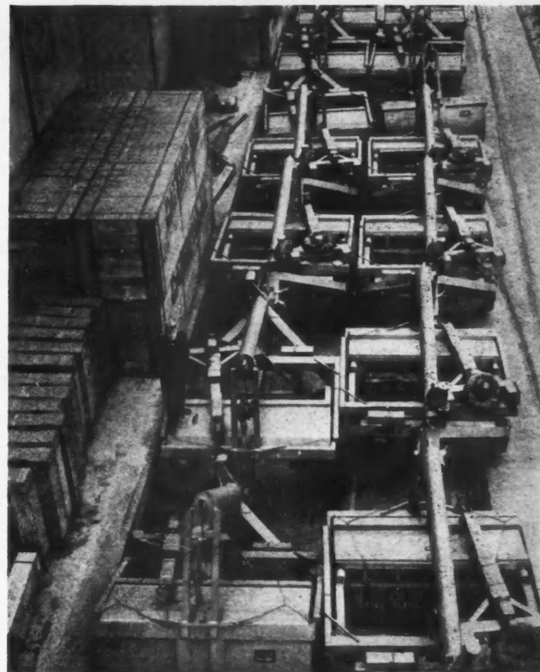
Prohibitive Silk. A life on the bounding main will be hampered by the fact that Japan has run up the price of silk to the point where a sailor's kerchief must be rayon. At least that is the indication from the Navy's decision to turn down all bids on the articles so important to a sailor and his joie de vivre. The silk market has long since reached the point where it scares the ordinary American speculator to death.

Competition Needed. Licenses issued in November for the export of arms, ammunition and implements of war to belligerents were at a new high—and still not so very large. France was our best customer with over $95 millions and Great Britain was a poor second. There are many things we'd rather sell them—tobacco, for instance, which would encourage buying of other American products—but the world never runs as it should. Under the heading of "they knew what they wanted" list this: French imports from the United States in November amounted to $95,579,366, of which $400 was for articles other than aircraft, parts and engines.

Currency Bargaining. No sooner had Rumania apparently allowed Germany a rather important victory in the setting of currency rates than the whole question was thrown open again by the employment of a mechanism that has only recently become part of the world's bargaining apparatus. On certain exports the Nazis will be allowed the official rate between the lei and the mark, while on others an entirely different rate will take effect. The net result is to reduce the triumph which had seemed conclusive to one of no better than temporary status.

Coffee a Sedative. It has been announced in Italy that coffee will be easier to procure after the first of next month, and this would be worth a mild celebration among Italians if it were not for the fact that the same announcement carries word of what may be a lean time for the Italian peninsula. Rationing cards will be issued, even though Italy has very conspicuously no part in the war. Loyal fascists will be thrilled with the restoration of coffee and will not stop to question whether it is intended as a soporific, a sedative, a stimulant, or a herring.

Blocked Pulp. Shipments from neutral to neutral are supposedly privileged even in this economic war. But Germany is reported to be holding Finnish ships carrying wood pulp to the United States, and the most obvious motive is to aid Russia. Since neither Finland, Russia nor the United States have declared war on anybody, it is difficult to see what neutrality rights are involved. Perhaps the Nazis are doing all of us a big favor in forcing dependence on the resources ready to hand.



Wide World Photo

Trench diggers made by Caterpillar Tractor and R. G. Le Tourneau await shipment from the free port at Staten Island, N. Y., to the French battlefields.

Figuring the Odds. War risk rates have naturally been high while Germany was attempting to challenge Britain's control of the sea. Every success on the high seas has had its repercussions among the shipping companies which issue only semi-annual reports. American sympathizers, however, need not listen to the tales of woe brought to them by the individual companies, since this country has been singularly fortunate so far in the war.

Shipping, Preferred and Appreciated. After the first of next month the British Government will have complete control of all ships sailing under the Union Jack. This does not set so well with every citizen of the tight little isle, but it is one of the hazards of war and it can be neither helped nor evaded. The United States is in the process of selling ships to both Great Britain and the Scandinavian countries, pursuing its policy of prejudiced neutrality. Among the first in the deal which should soon go through are ships which have seen their best days. Other ways of getting around the neutrality act are to swap beats with Allied ships or to try to steal their business in neutral zones.

Argentina Holds Out. Among the few diplomatic defeats Secretary Hull has met in his policy of trade agreements is the recent case of the Argentine. For various reasons, newspapers down there have been hostile throughout the negotiations, presenting one side of the case and forgetting the other. It might be calculated that if we fail to sell in this country the English will have a better chance and will then spend the proceeds of their sales in the United States, but few north or south of the equator care to become so elevated in plane as to overlook immediate trade opportunities.

Douglas Aircraft

Record Orders, with More to Come, Point to Record Profits

BY H. L. TRAVIS

Few aircraft manufacturers hold as favorable an all around position as does Douglas Aircraft. Both as regards sales and products this company stands in a unique position, since wide diversification has been at all times maintained. So far as sales are concerned Donald W. Douglas, president, stated early in November, 1939, that approximately 15 per cent of the company's huge backlog was scheduled for commercial plane carriers, 35 per cent for the United States Army and Navy and 50 per cent for the account of foreign countries. With regard to models, these are more widely diversified than those of any other company in the industry and range from the small single-engined attack plane for the Army to the torpedo plane for the Navy and up to the huge DC-4 passenger models made for commercial transport companies.

A common distinction of the aircraft industry from most others is its pioneer characteristic. In this respect it can be said without qualification that Douglas has been among the foremost companies having an intelligent forward looking policy. Starting as a small company, The Douglas Co., predecessor to the present organization, in Santa Monica, California, it obtained some thirteen years ago a competitive order for 75 fighting planes from the United States Army involving the sum of $2,000,000. It took ability to get the order and nerve to fill it, since in those days the industry was young and an order of this size was, to say the least, unusual. Contrary to the dire predictions of many observers Douglas not only filled the order, but made a profit from it. Since then the Army has been one of its major customers.

Orders are usually obtained on a competitive basis, so that an efficient and experienced engineering department is essential. In this respect the use of an engineering force is comparable to the research and laboratory department of a progressive chemical company. Thus the entire future of an aircraft concern might be said to center around this division for upon the accuracy of its estimates and plans depend not only orders, but future

profits. In this respect Douglas is in a most favorable position with one of the finest scientific staffs in the country.

As a consequence several new models have been developed recently. Among them are a twin-engined attack bomber, which has been well received, and passenger liners such as the DC-4 and DC-5. The former commercial ship, a de luxe 42-passenger plane, is equipped for long distance flights, while the latter is a smaller 16-passenger twin-engined commercial transport plane intended for feeder lines. Previous models include the DC-2 and DC-3. The DC-3, a 21-passenger ship, is now being used on an ever increasing scale by such major air lines as United, American and Transcontinental & Western Air, and can be converted into a sleeper on occasion, thereby accommodating 14 passengers. The introduction of each new model must anticipate new requirements and constitutes within itself a gamble, since large amounts of both time and capital are of necessity invested in new planes before they are ready to enter the ever difficult field of competitive bidding. On the other hand it was found that DC-3's are convertible into bombers. Thus the development of one model may supplement another, and in such instances a system of joint costs might be applicable. Virtually all of the company's business, however, has been in land planes. Though flying boats have been manufactured and marketed, no attempt toward concentration in this field has been undertaken.

Some appreciation of the severe competitive situation in the industry may be gained from a brief review of some of the various models as they stand today. For instance in competition with the DC-4 there is the Curtiss-Wright CW-20, which is being considered by American Airlines in preference to the Douglas model, while Transcontinental & Western Air is understood to have revived its contract with Boeing Airplane Co. and is believed to be contemplating the purchase of three Boeing 307 Stratoliners. In the military field competition is equally intense with Martin bombers and Boeing Flying Fortresses faced by Douglas attack bombers. Douglas holds top position, however, in commercial transports and begins the new year with the largest and most significant commercial order in the industry's history. This involves production of 40 DC-4 transports valued at $14,000,000.

Operating Facilities

Manufacturing activities are carried on in two plants —the one located at Santa Monica, California, and the other at El Segundo. The Santa Monica property is the more important and its efforts are devoted to the production of larger planes both commercial and military. The other division at El Segundo is located only a few miles away and construction at this plant is chiefly confined to smaller models. However, this plant was nevertheless responsible for the DC-5, which is the first plane of this type it has produced in quite a few years. These two plants have a combined area of 1,080,000 square feet, while the mild California climate often permits the assembling of plane models out of doors.

An interesting and important manufacturing feature is the ability of Douglas to produce a wide variety of different models such as twin-engined bombers, trainer planes, observation craft, torpedo and dive bombers and attack planes in the military category, while, as already mentioned, large passenger models make up an important part of the company's output. Among military craft observation planes rank first in importance, while trainer planes are next on a unit basis. Ability to produce these models simultaneously is a tribute to engineering and managerial ingenuity. For example, considerable duralumin parts go into planes. This is an aluminum alloy, which is as strong as steel and can be readily rolled, stamped, drawn, or forged. Since many complex parts of this metal must be pressed so as to fit

All pictures in this article courtesy of Douglas

View of Douglas' Santa Monica plant with a DC-3 in test flight at the right.

A group of pursuit bombers ready for delivery to the Army.

requirements called for by modern planes, a problem in costs had to be faced. This was successfully solved by the installation of two large hydraulic presses, which shape parts; and one has a pressure capacity of 5,000 tons thereby becoming the largest high-speed press in the world. The other press has a capacity of 2,000 tons.

Total plane capacity was recently estimated by competent students at from 100 to 150 military units a month. It is estimated that theoretical dollar capacity ranges somewhere around $100,000,000 a year. This is substantially above total sales of $28,347,474 reported in 1938, and indicates that potential capacity is still considerable. In view of the large number of orders being received from both domestic and foreign sources this excess capacity is important. Emphasis on this point is found in recent despatches from Santa Monica reporting that conversations are now underway between company officials and representatives of the British Air Ministry concerning a possible order for the new type of 400-mile-per-hour light attack bombers. While final figures have not been determined upon, this order is believed to involve something like $40,000,000 alone. Another instance of the kind of business the company is now receiving is an order placed in mid-December by the French Government for an additional 270 Douglas DB-7 bombers, which are powered by Pratt & Whitney 900-horsepower motors. This follows an initial order for 100 of these ships. At present unfilled orders amount to an estimated $76,000,000, as of December 1st. Thus existence of a capacity some three or four times above 1938 net sales is highly significant and satisfactory from the shareholders viewpoint, since it probably precludes any extension of plant for the moment and justifies continued payment of dividends rather than reinvestment of profits in additional capital facilities.

During the past three years approximately 70 per cent of total output was for the account of the United States Government. The balance has been divided between sales to domestic transport companies and exports. Until recently commercial transport models have accounted for the bulk of export orders, but since the start of the European War orders for military planes predominate. As time goes on this source will become increasingly important and with indications pointing to the placement of orders which cannot be completely filled much before 1941, it seems for the moment at least that the Allied nations are anticipating a long war. It is, of course, upon the continuation of war that future earnings largely depend for the time being, though Douglas is well situated to turn its efforts to complete concentration on commercial business should the conflict abroad suddenly and unexpectedly terminate. In this respect it stands in a better position than those companies now devoting their entire attention to war orders and thereby completely neglecting commercial development. Eventually, however, the war will come to an end and when this occurs Douglas will be in a correspondingly better position than most of its competitors.

After a halting and hesitating start Donald W. Douglas embarked in the manufacture of air planes with a borrowed capital of $15,000 in 1922. After winning a competitive Navy order for what eventually amounted to about 20 torpedo planes Douglas launched out in earnest. By 1926, as already stated, the company stuck its neck out again and obtained a large army order. Until 1932, however, no attempt was made to enter the commercial field, but at about this time a series of developments brought forth a decision. At the time the

Operations of Douglas Aircraft

Year	Total Net Sales	Net Income	Profit Margin	Net Per Share	Total Planes Sold
1938	$28,347,474	$2,147,392	7.5%	$3.76	410
1937	20,950,361	1,081,513	5.1	1.90	303
1936	10,087,371	976,342	9.7	1.74	228
1935	8,951,114	1,262,967	12.6	2.70	130
1934	7,526,705	38,753	0.5	0.08	142
1933	2,294,295	46,112	2.0	0.10	92
1932	2,347,569	71,622	3.0	0.20	70
1931	3,825,270	549,331	14.3	1.60	245
1930	4,088,595	689,849	17.2	2.02	197
1929	2,546,025	403,364	15.7	1.19	134

outlook was gloomy, since the transport market had been oversold in 1928 and 1929. Ford was tops and other manufacturers feared his strong financial position and few dared compete with him. However, after losing an estimated $1,000,000 to $3,000,000, Ford withdrew, leaving the Fokker Company among the leaders. In 1931 Knute Rockne met his death in a Fokker ship, which had the effect of dealing this company an irretrievable blow. Then Harold E. Talbot Jr., chairman of North American Aviation, Inc., which held some 89,000 shares of Douglas stock, arrived on the Pacific Coast for a conference with Donald Douglas. Talbot had the additional advantage of having a thorough knowledge of the transport field through his directorship in Transcontinental & Western Air. He told Douglas that Boeing had just sold new models to United Air Lines, and the time was opportune for entrance into the commercial field. T W A was in the market for new ships so Douglas and his staff immediately set to work on plans. After considerable discussion T W A agreed to take one ship at a cost of $125,000 with a year's option on 60 more planes at $58,000 each, providing it met specifications. The purchase price was later increased to $65,000 per plane. This marked the introduction of the DC-2, a 14-passenger ship which had a top speed of 213 miles an hour.

Successful Policies Followed

Ever since these historical events Douglas Aircraft has been a leader in the production of commercial ships. Some appreciation of the effort that goes into this undertaking may be gained from the accompanying table. It will be noted that between 1936 and 1938 profit margins have been low both in comparison with 1929 and the early '30's. This is especially notable in view of the considerable growth in sales. The only explanation of this devolpment is the experimental and research costs entailed in the construction of the DC-4. Prior to this there was the DC-3 and DC-2, which required further expenditures and explain the irregular profit margins in the face of increased sales. Complete expenses involved in the DC-4 were finally written off in August, 1939. Nevertheless it is obviously difficult to make any accurate estimate of earnings in relation to sales for this reason.

During the current year sales for the nine months ended August 31st lagged behind those for the same part of 1938 by $3,707,481 for a total of $19,192,357. This was probably due to some technical difficulty in making deliveries. During the August quarter sales began to show improvement. Profit margins in the February, May and August quarterly periods during 1939 were respectively, 12, 11.7 and 13.2 per cent. For the entire nine months earnings on the common stock were equal to $3.97 per share against $3.19 per share in the similar part of 1938. Thus despite reduced sales actual earnings were greater, which is once more undoubtedly to be explained by the lack, in this instance, of experimental costs.

Further appreciation of the sums involved in experimental and development undertakings may be obtained from the fact that in 1937 experimental costs on a military contract for the United States Army totaled $739,640, equivalent to $1.23 a share on the outstanding common stock, and costs of development of the DC-4 in 1938 amounted to $1,327,060, equal to $2.21 a share. In November, 1939, it was announced that all expenses covering the DC-4 had been written off as of August 31st. Continuous experimentation is an essential and necessary part of this type of business.

Donald W. Douglas, founder and president of the Douglas Aircraft Company, Santa Monica, California, recipient of the 1939 award of the Daniel Guggenheim medal for "outstanding contributions to the design and construction of transport airplanes."

Douglas airplanes today are almost universally used as standard equipment on most of the commercial airlines in the United States and on many foreign lines.

Today at 47, Mr. Douglas is one of the leading aviation figures and head of one of the largest American aircraft factories, with a backlog in excess of $75,000,000.00, only one-half of it in war orders, an army of 11,000 employes (scheduled to reach the peak of 17,000 in June, 1940), and an annual payroll in excess of $20,000,000.00, at the present rate of production.

An example of the factors making up the cost of manufacture is illustrated in the development of one of the recent models, the DC-4. To begin with these consisted of 100,000 hours of laboratory work and research, and 500,000 hours of engineering time. The cooperation of five major domestic air lines was obtained in the construction of this de luxe model, though unfortunately at the time of the initial undertaking in 1936 it had been anticipated that the rate of growth would be greater than it has as yet turned out to be. The objective has been to obtain sufficient orders so that the new plane can be sold at a reasonably low price and at the same time liquidate some of the development costs. Options were therefore granted the air lines which were cooperating with the company in this particular ship's construction. The first successful flight took place June 7, 1938, and following the (*Please turn to page* 440)

The Bond Bulletin

— Bull Market Dangers
— Maturities in 1940
— Selected Issues

BY J. S. WILLIAMS

THE bull market in bonds has now lasted about seven and a half years. The start of 1940 finds bonds, as measured by representative indexes, selling only slightly below their pre-war peak, reached last June. With prices rising and with yields receding almost to the point of disappearance, the high grade bond market has become virtually closed to the individual investor. Bargains in bonds, or at least in *good* bonds, are as hard to find as the proverbial needle in the haystack—and there is better than an even chance that investors, even if they are satisfied to accept the low bond yields now available, may suffer a capital loss on such bonds, perhaps before another year rolls around.

Actually, however, there exists no irrefutable premise for predicting either an imminent or serious decline in bond prices. Rather it should be said that the outlook for the bond market at the present time does contain a number of factors which compel their acceptance as a warning, if not the basis for entire conviction.

Reason alone must tell us that with best grade bonds yielding only slightly more than the unprecedentedly low return obtainable last June, any further extension of the upward trend can only take place within very circumscribed limits. By the same token, also, the bond market would appear to be very vulnerable to adverse developments. An avalanche does not start in the valley but at the top of the mountain.

On more than one occasion in recent years predictions of hardening interest rates accompanied by declining bond prices have been freely made. That these predictions were subsequently confounded reflects less on the reasoning behind them than their timing and the reliance upon the classic theories which in the past have governed the trend of bond prices.

Under normal conditions in the past the most potent influence determining the trend of bond prices has been the cost of borrowing new money—interest rates. But with the new powers which have been vested with the Government, it has been possible for the Administration to reduce the cost of borrowing to the lowest levels in history and in so doing it virtually underwrote the bull market in bonds.

With the necessary authority and machinery it has been possible for the Government to create a huge reservoir of funds and potential credit in the hands of the banks and the public. By so doing the Administration sought to attain a double-barreled objective—the financing of large scale Government expenditures and deficits at the lowest possible cost and to make it attractive for business and industry to borrow funds for capital outlays. In the former, the Administration succeeded admirably, but as a recovery expedient low money rates have been largely a dud. Business took advantage of low interest rates, for the most part, not to build plants, buy machinery and put men to work but to refund outstanding bonds carrying 4, 5 and 6 per cent coupons.

It would only require that the Government reverse the tactics of easy money to bring about a hardening in interest rates and a decline in bond prices. But the Government is unlikely to take any conscious action which would upset the bond market. The Government is still under the compulsion to finance annual deficits, which promise little or no diminution in size. Any hardening in interest rates might precipitate a crisis in Government financing plans.

But the fact that the Government has the means at its disposal to effectively maintain interest rates at a low

Selected Bonds for Current Investment

Issue	Recent Price	1939 Price Range High	1939 Price Range Low	Call Price	Current Yield
Union Pacific 4's 2008	108	110⅝	100	107½	3.70
Chicago Union Sta. 3¾'s 1963	107	110	99½	108	3.50
National Steel 1st 3's 1965	102	103⅞	92½	104	2.95
N. Y. Steam 3½'s 1963	105	107¼	94½	105	3.33
Union Oil of Cal. 3's 1959	102	102⅜	99½	105	2.95
Columbia Gas & Elec. 5's 1952	104	104¼	94	103	4.81
Norfolk & Western 4's 1996	122	124	114¾	NC	3.28
Florida Power 4's 1966	99	99	89¾	105	4.04

NC—Non-callable.

figure cannot be accepted as absolute assurance against a decline in bond prices. Witness the large scale selling of Government and high grade bonds which occurred immediately after the outbreak of war in Europe last September. Longer term Treasury bonds declined an average of 6⅜ points under their August close. In the four weeks ended September 27, the Federal Reserve System supported the market by purchasing an estimated $403,482,000 Government bonds and $66,338,000 notes, sold mostly by banking institutions outside the large financial centers.

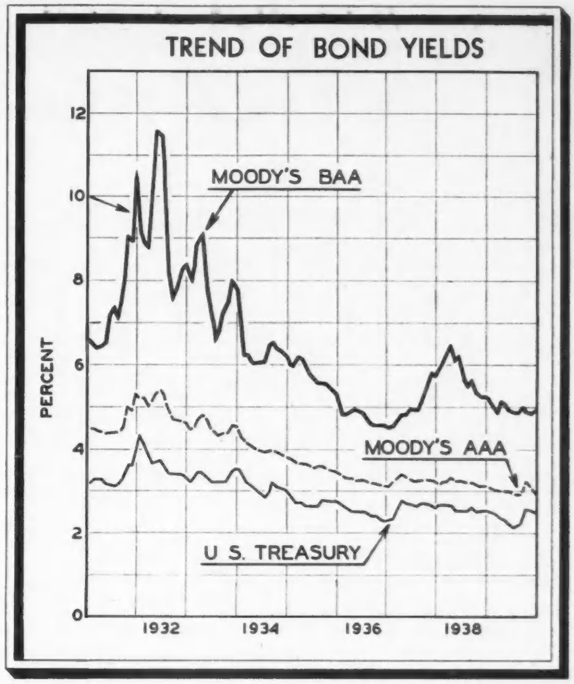
Although much of the selling which came into the bond market last September was apparently precipitated by the premature expectation of higher interest rates such as occurred following the outbreak of the first world war, the extent of the bond market's vulnerability was rather convincingly shown.

In many respects, the first world war may prove an unreliable guidepost for anticipating the course of economic and financial events in the present setting. In fact it has already been necessary to discard or reject numerous of the precedents of 1914. It may be, for instance, that the present European war will last for some little time without appreciably affecting domestic interest rates or bond prices. This, however, must be set down as pure conjecture. Meanwhile, war, and all the serious implications evoked by war, is the most serious threat to bond prices.

The United States may never become directly involved in the war; commercial borrowings for the purpose of financing foreign trade and domestic expansion may not increase sufficiently to have any appreciable effect upon interest rates; and the Government may continue to successfully manipulate the controls to maintain interest rates low. Gold will continue to flow toward the United States and excess reserves promise to reach a new all-time high in the near future. But Government controls and Federal Reserve support would be of no avail should bondholders become panicky. Consider, for example, the uneasiness which even now must be felt on the part of the investment officers of many banking institutions. Bank deposits have for some years been increasing at a faster rate than bank capital with the result that the generally accepted ratio of $1 capital to each $10 of deposits has been seriously impaired in many instances. A sharp drop in the bond market would, with the banks holding some $12,500,000,000 in Government and other bonds, mean an additional and serious impairment in capital. Truly, the banks are confronted with a Hobson's choice.

To repeat, the more serious elements in the bond outlook may never materialize. It suffices, however, at this time to remember only that bond prices are near their peak, but the difference between the present setting and that of last June, when bonds were at historical highs, and war was still only a threat, is enough to invite extreme caution.

There are investors, however, whose requirements are such that bond investments are obligatory. These investors might well consider United States Savings bonds. These bonds yield 2.9 per cent if held to their ten-year maturity and a total of $10,000 maturity value may be acquired by an individual investor in each calendar year. For those investors who prefer corporate bonds a selected



group of sound issues accompanies this discussion.

To append a brief comment regarding second grade and speculative bonds, the probabilities are that further improvement in general business and corporate earnings will doubtless strengthen the current position of many issues in these categories, with a correspondingly favorable effect upon their quoted values. Medium grade and speculative bonds, however, will be subjected at least indirectly to the same influences which may be felt in the high grade bond market over the months ahead.

1940 Maturities

The total of corporate bond maturities this year is estimated at less than $365,000,000, the lowest figure in recent years. Railroads head the list with total maturities of about $215,000,000, including Canadian roads but exclusive of issues in default, R F C loans and privately held debt. Industrial maturities are estimated at less than $90,000,000, while utility companies are confronted with only $60,000,000 in maturing obligations.

For the most part it is not expected that any serious difficulties will be encountered in meeting most of current maturities. In some instances arrangements for handling the redemption have already been made. In other instances, where the credit standing of the obligor company is not sufficiently high at the present time to permit a successful refunding operation, holders of maturing bonds will be offered plans for extension of the maturity and adjustment of interest. Where the latter expedient is employed, bondholders will probably be offered various inducements such as a partial payment in cash, a bonus in common stock, or the adjustment of sinking fund requirements.

For more complete details relating to current maturities, subscribers are invited to write to the Inquiry Department of this publication.

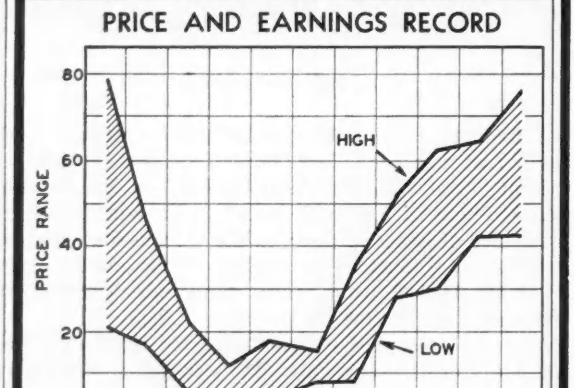
A Leader in Machine Tools

Niles-Bement-Pond Has Exceptionally Favorable Sales Trend and a Tie with the Dynamic Aviation Industry.

BY WARREN E. KRAEMER

THE demands of war and peace have combined to create what amounts to a boom in the machine tool industry. Under pressure, production has been stepped up to the maximum in many lines and in some instances fabrication of standard parts has been farmed out to companies that make machinery as a sideline. In spite of this, backlogs are so heavy that delivery on current orders cannot be assured until late next year. And individual concerns are booked solid right through to 1941.

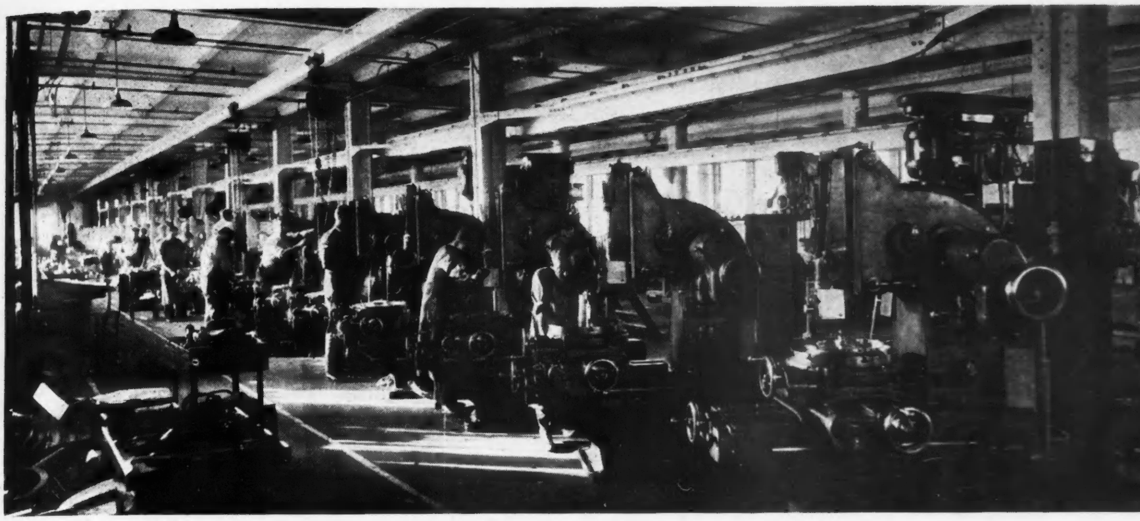
Even so there has been no general increase in the prices of machine tools. Only in certain instances, particularly with respect to foreign orders, have quotations been advanced. A distinct effort has been made to maintain the present price levels and increases are expected to materialize only when higher production costs make them necessary throughout the industry.



This situation is aided by the fact that within the machine tool industry there is no question of domination by any one company or group of companies. There are several leaders, though, and outstanding among them is Niles-Bement-Pond. Manufacturing a wide range of small machine tools, including cutters, borers, dies, shapers, precision instruments, and grinders, it has established an enviable earnings record over the last difficult decade. In an industry noted for its volatility and wide swings above and beneath the general trend of business it has shown marked progress. Primarily a producer of small tools for which the demand is relatively stable, the recent expansion moves of the company have been directed at the heavier machine field. And Niles-Bement now has a well defined stake in both divisions. Whereas ten years ago the largest machine produced weighed only 10,000 pounds, present capacity permits construction of equipment weighing up to 80,000 pounds.

A new plant near Hartford, Conn., has just been completed for Pratt and Whitney, an operating subsidiary. Covering 20 acres, it cost $2,500,000 and will permit important operating economies as well as a considerably widened manufacturing scope. A major factor is that the plant occupies only one level, permitting more rapid and efficient handling of heavy equipment as it is moved from one assembly department to another. Most of the buildings formerly housing this division had been in service since 1900. Moving over to the new location cost roughly $400,000 which will be charged against current revenues. And in spite of the fact that some 2,500 pieces of machinery had to be shifted, it is estimated that the equivalent of only ten working days was lost. Several months will be needed to make all the necessary operating adjustments. But after that, production in the new plant is expected to show large savings over the old methods.

The entrance into the heavier machine field will widen the profit margin during periods of greater business activity. And at the same time the company has no intention of withdrawing from its position in the small machine tool division. It will, therefore, retain its comparative earnings stability, although of course the trends and developments within the industry will continue to affect it profoundly.



Courtesy of Pratt & Whitney

General view of assembly floor, showing a line-up of P. & W. Vertical Shapers in the final stages.

What volatility means in the machine tool industry can be gathered from the action of the new orders index over the last decade. Based on operations and orders in 1926 with 100 as the norm, it ranged between a high of 282 and a low of 7.4 in the last six years. From the peak of 186 in 1929 it dropped with business in general to the low point of 7.4 in the depression year of 1933. The recovery carried it through to a new high of 282 in 1937, and the sudden slump after Labor Day of that year plummeted it down to a low of 66.7 in May of 1938. Taking the usual year-end decline in its stride, it moved ahead steadily after that until September of last year. In August the index stood at 206.5. In September war was declared and the rush of orders was so heavy and disrupting that the collection of data for the index was discontinued, otherwise it might be making a new high right now.

Machine Tool Orders Spurred by War

The outbreak of hostilities in Europe brought a sharp increase in machine tool business from three distinct sources. Approximately 52 per cent of the orders given prior to the war originated in Europe, and the ratio is not thought to have changed much since then. Fearful of rising prices or actual shortages, domestic companies have joined the rush for new equipment. Though a portion of the demand has come from sources connected with the war such as the aircraft companies, shipyards and the Government, most of it stems from industries that have no direct connection with the hostilities, such as the automotive industry, the building trades, railroads, the electrical equipment industry, and the office equipment industry. Estimates show that approximately 89 per cent of the machine tools in Government arsenals are obsolete, and about 60 per cent of the machine tools used by the metal working industries are also in that class. In the first instance it is a matter of policy, but in the second it is the result of a decade during which business has held off making capital expenditures because it was not sure that it could profitably use new equipment. The war has brought a change in the Army's outlook to the extent that it will now devote funds and energy to actually building up the technical equipment of the forces. And faced with a sustained rise in the rate of business and industrial activity, many companies will have to replace machines if they are to maintain their position.

The net result of this situation is, therefore, that the machine tool manufacturers have before them a potential demand for their production that shows signs of becoming a reality and that could mean operations at capacity for a period of years. Naturally the obsolescence will not be rectified in any unbroken period of production, but under the present condition there are good indications that output will continue to be high for some time to come.

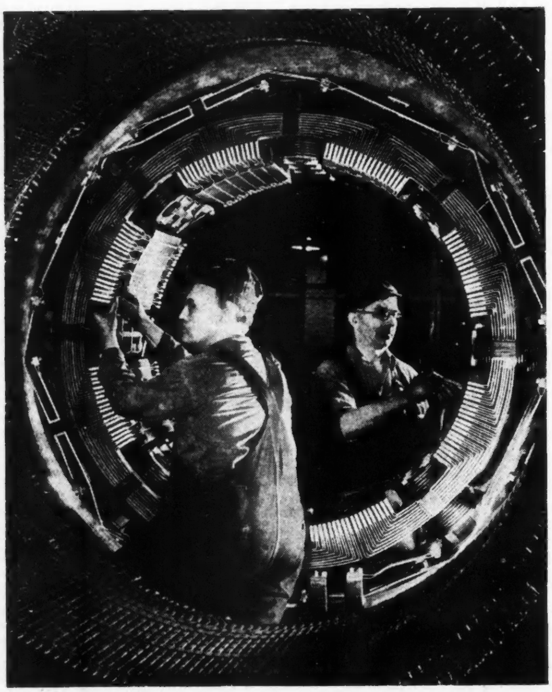
Though no actual figures have been released by the company, Niles-Bement-Pond has had its share of the present rush. Backlog stood at $1,894,000 at the end of 1938, and estimates point to steady increases that have carried it up to new highs. Last July it was estimated at $2,440,000 and the increase from September to the middle of October alone amounted to approximately $1,500,000. At that rate the backlog is estimated to have reached a high of $6,500,000 in December of last year though actual production continues to show still further increases.

Earnings for 1938 were regarded as satisfactory in spite of the somewhat unsettling effect that moving into a new plant had on operations. For the first nine months the net is estimated at about $3.50 per share, and for the full year should be in the neighborhood of the 1938 figure of $4.88 per share. The $400,000 expense of moving will be charged against current earnings and under ordinary circumstances would have cut into dividends considerably, since the amount of stock outstanding is small. But in addition to two cash payments of $0.50 per share each, the company paid a stock dividend of one share of United Aircraft for each 20 shares of its own stock held. This, computed at the market price for the aircraft stock at the time, brought the total disbursements for the year to $2.90 per share against $2.00 per share in 1938. *(Please turn to page 439)*

For Profit and Income

Treasury Tax Policy

After the undistributed profits tax had been discredited and disowned by Congress it was thought that nothing more would be heard for a while of that particular crusade to force corporate management to pay larger dividends. But then the Treasury came out with the famous 102 instructions. These seemed to threaten business with tax penalties wherever it did not distribute at least 70% of its earnings; at least it put the burden of proof on the corporation to show that retention of earnings was necessary. But Representative Boehne has just released a letter from Under secretary Hanes, to the effect that "there is no cause for concern (with respect to the instructions) upon the part of corporations not formed or availed of for the purpose of preventing the imposition of the surtax upon individual shareholders." This would seem to eliminate practically all listed companies from the effects of the instructions. It should mean that dividends will be unforced, a matter of profit division at the times and in the amounts the directors consider prudent.



Westinghouse Photo

Westinghouse men winding a steel mill motor in the company's East Pittsburgh plant. Orders for large units have played a prominent part in the gains shown by Westinghouse backlogs.

Oil Imports

While many investors wonder whether the flow of petroleum exports to Europe for war purposes will be as heavy as they had hoped and when it will actually get under way, a peculiar thing is happening. Oil from California usually comes to the eastern coast by water at this time of year, because of the demand for fuel purposes. But shipping facilities are scarce and at a premium, so because Venezuela and other South American producing countries are nearer the market, they are getting the business. The pickup in both crude and fuel oil imports has been marked in recent weeks, while receipts from the West have been greatly reduced.

Forecasting by Precedent

Down in Washington it is reported they have figured out a certain fairly consistent habit of the **Federal Reserve Board** index of industrial production. In seventeen out of the twenty years the index has been compiled, a rise during the year, that is from January to December, has indicated that the following year would show further improvement on the average over the twelve months. In 1939 the index started at 101 and ended somewhere around 127 or 128. The gain was certainly definite enough. If 1940 is to average higher, it will have only a mark of 105 to beat, since last year's good ending was balanced off by a shaky beginning.

Copper Earnings

Estimates are well agreed on earnings for two of the largest domestic copper producers, putting **Anaconda's** at $3 and **Phelps Dodge's** at $2.50. The former earned $3.62 in 1937 and $1.10 in 1938; the latter $1.75 and 93 cents. Kennecott's net was about $3 a share versus $4.60 and $2.10. In general, the industry has just had its second best year in a decade, although it was scarcely satisfying in relation to past glories.

Value of Securities Listed on N. Y. S. E.

The values shown are for all shares within given groups, taken on the last day of 1938 and 1939, and include changes brought about by listing and de-listing. Figures are in thousands of dollars.

Division	Value 1938	Value 1939	% Change
Autos & Accessories	$3,652,298	$3,817,682	+ 4.5
Financial	1,009,672	948,993	— 6.0
Chemical	6,069,059	6,456,607	+ 6.4
Building	769,539	566,949	—26.3
Electrical Equipment	1,793,473	1,658,739	— 7.5
Foods	2,907,070	2,944,287	+ 1.3
Farm Machinery	642,447	651,112	+ 1.4
Machinery & Metal Products	1,932,944	1,681,221	—13.0
Non-Ferrous Metals	2,013,750	1,754,065	—12.9
Steel Iron & Coke	2,541,218	2,440,066	— 4.0
Petroleum	4,947,949	4,306,787	—12.9
Paper & Publishing	404,376	453,773	+12.2
Retail Merchandising	2,430,918	2,510,518	+ 3.3
Railroad Oper. & Equip	3,480,067	3,117,478	—10.4
Textiles	239,843	276,747	+15.4
Aviation	543,654	657,309	+20.9
Gas & Electric Utility	2,146,360	2,394,589	+11.6
Gas & Electric Holding	1,289,719	1,411,460	+ 9.4
Business & Office Equipment	401,058	319,114	—20.4
Ship Building & Operations	38,734	48,821	+26.0
Leather & Boots	163,503	186,350	+14.0
Tobacco	1,654,932	1,612,679	— 2.6
Rubber	483,011	419,055	—13.2

Steel Prices Again

For a number of months it has been assumed that steel prices were understating their strength, as would seem obvious in a sellers' market. Although there was some disappointment that schedules were not moved upward for the first quarter of the new year, the fact was appreciated that the long period of price shading had ended with the outbreak of war. Now reductions on certain heavy products have been announced by Detroit warehouses, and they have sent a reminiscent shiver or two through the industry. It is stoutly claimed, however, that these cuts are made solely because of conditions in that particular area, and that they correct a spread somewhat overlarge between heavy and light items. The scrap market had a discouraging time some weeks ago, but since then there have been no signs of any general weakness in the steel situation.

Big Board Values

If asked what group of stocks on the **Stock Exchange** gained most in percentage during 1939, most people would name the aircrafts. Actually, though, they were second to shipbuilding and shipping, with a gain of 26%, as shown in the table. Third place went to the leather group, possibly proving that this war will see some marching yet. Largest losses were those of the building group and office equipments, while foods distinguished themselves by the greatest stability.

Insiders vs. Foreigners

Latest reports on trading by officers, directors and large holders of securities show that the pace of steady liquidation which set in during early autumn has slackened considerably. At the time the insiders were doing their heaviest selling the blame for the additions to the supply of stocks was laid upon foreigners. It turns out that at least in the first stages of the war the selling from France and England was fairly well offset by buying from European neutrals. Since then even the French and English selling is understood to have moderated, although it will undoubtedly continue as long as present rules permitting sales but forbidding purchases remain in force. Among the problems of the individual holder of securities over there is his tax liability. He must raise cash in larger amounts than usual from some source, and his American stocks are easy to liquidate. Every spell of weakness in sterling and francs in terms of the dollar creates additional reason for selling, in the form of profits available even if this market has remained stationary.

Trader Talk

Although **Loft** seems to lead the list in volume day after day, **Big Steel** took the prize for the year with **General Motors** second and **Central** the leading rail * * * **Lee Rubber** earned $5.46 a share in its last fiscal year, pays a substantial dividend, sells at 34. But this isn't the only case of apparent bargains being kicked around. * * * **United Corp.**, in continuing to get out of the utility field, switched to industrials in the fourth quarter, and prominent among the new acquisitions were oils. **Lehman Corp.** bought **Aviation & Transportation Corp.**, but otherwise mainly standard leading industrials, and sold small lots of various issues plus a fair-sized chunk of **Climax Molybdenum.** * * * Aircraft orders rose 380% last year—so have some of the stocks. * * * Traders were somewhat disappointed with the strength of the snapback in second grade rail bonds which had been under tax selling pressure. * * * Too many puns about the cleanup the soap companies—**Colgate** and **Procter & Gamble**—are making.

Aircraft Financing

It has been taken for granted that a number of companies in the aviation industry would find new money necessary and that they would raise it by selling additional stock to their owners. Yet announcement of the rights immediately puts an issue on the defensive, as illustrated in the case of **Lockheed.** The company had reported earnings of $3.46 a share for the first eleven months of 1939, and a backlog of $46,000,000, but when the market first learned of the additional stock to be offered, selling took a couple of points off the price in short order. Precedent calls for a snapback in the price of the stock when the rights expire.

Corporate Casualties of the War

Problems Created in the Last Six Months for International Nickel, American Metal, Woolworth, National Cash Register, Loew's and International Telephone

BY PHILLIP DOBBS

THE present character of the war in Europe has little in common with the fierce fighting of the first World War. And the repercussions on business and industry in this country have accordingly been slight. Certain individual companies, however, have been hurt by the trend of events, and the action of their stocks shows it.

The most startling of these corporate casualties of the war was International Nickel. During recent years, as the war clouds gathered over Europe, the stock of this company was high on the list of war hedges. Its merit lay in the fact that the concern, which was founded in 1916, had been an outstanding gainer during the last war, and yet was reporting steady profits in peace-time. In January of last year it sold at a high of 55¾, and in spite of the downward drift of the market, ranged narrowly right up to the date war was declared. But when the market staged the first forward rush International Nickel slumped 10 points in a few trading sessions. The "best bet" for safety had actually turned into the poorest war orphan. The damage is done and the market for the shares is depressed. But let's look at the situation as it affects the company's operations and profits.

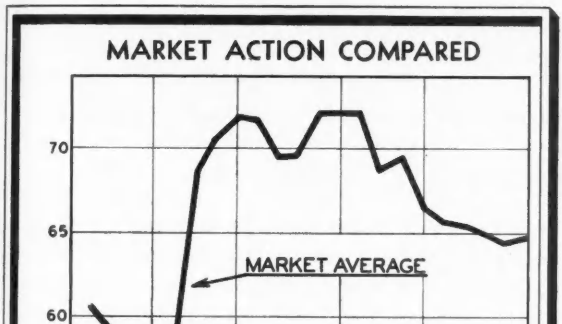
International Nickel is the absolute leader in the production of nickel. With its major properties located in Canada, which country has some 90 per cent of the known deposits of the metal, the company produces over 80 per cent of the present world output. Copper and platinum mining are also important, the former normally contributing about 25 per cent of net earnings. The use of nickel has been aggressively sponsored, and last year saw the greatest consumption of the metal in history. From an operating standpoint the company is well established. The reason for the poor showing marketwise, therefore, lies elsewhere. The answer is simple. The concern is Canadian, and Canada has joined England in fighting Germany. And the result has been higher taxes all around. Beginning with this year the company will have to pay an income tax of 18 per cent against a normal 15 per cent levy, and must share equally with the Government all profits over and above the average for the years 1936-1939, inclusive. Estimating last year's earnings at $35,395,000 makes this average $38,739,000. This puts the base at about $2.45 per share for the stock, and actually offers considerable leeway. Earnings last year are estimated to have been near $2.30 per share, and a dividend of $2.00 was paid. Thus far the Government has continued to permit disbursements in American rather than Canadian dollars, and present indications are that this practice will be continued. The picture as a whole seems to point toward well maintained earnings in spite of the additional taxes, in which case the stock has in all probability come in for more pressure than the situation warrants. The recent low of 35 was attributable to selling for tax loss purposes more than anything else, and the stock held well at that level.

Exchange Losses and Taxation

Another stock that slumped when war was declared was Loew's. The motion picture industry is a volatile one at best, moving in cycles that show a degree of independence from the general trend of business. But Loew's is one of the strongest companies and has reported some fine earnings. Estimates indicate that approximately 25 per cent of total revenue is derived from the rental charges for films distributed in foreign countries. Since one of the major markets is England and the other English speaking countries in the British Commonwealth of Nations, war has hurt business to a considerable degree. Attendance at theatres is expected to decline, and such profits as are made will be subject to exchange losses, taxes, and other restrictions. Some improvement is looked for in the South American markets, but not enough to offset the drop in other foreign revenues. It is not surprising, therefore, that the stock reached its low last year at the same time the market touched the top of the September rise. Since that time, the improved domestic outlook has brought the issue back somewhat. With a heavy schedule of Class 1 films including a half interest in the famous Gone With The Wind, the company expects to have a good year as far as the American market is concerned. Naturally the English situation must await the developments of the war, though, and until the matter is clearer the stock will reflect the loss of this important source of revenue.

The shares of International Telephone and Telegraph

have had a bad time in these war conscious markets. Well managed, and profitable under ordinary conditions, the developments of the last few years have brought confiscation and destruction of its properties, and the impounding of its revenues in many countries. The systems in Spain, China and Poland have been in the actual scene of war, and the property in Germany has been carried on the books as a doubtful investment since the advent of Hitler. The investment in Spain alone totals $63,000,000 and as yet the Franco Government has given no sign as to whether or not it will confiscate this or permit International to continue operations. Elsewhere, particularly in South America, the company has telephone systems that are highly profitable. But the catch is that exchange restrictions are so severe that money cannot be brought home to service dollar obligations. In addition to its communications systems the company has manufacturing plants turning out electrical equipment. But they too are all in foreign countries. The main plant in England is flooded with war orders, but taxes and exchange discrepancies make it hard to turn earnings over to the parent concern. It is, therefore, not hard to understand why the stock was further depressed by the outbreak of the war. And though in many instances individual units continue to show gains, the future for International Telephone remains obscured by the uncertainties of the war.



The extent to which F. W. Woolworth has lost by the outbreak of hostilities is more clearly defined than for the three preceding companies. In normal times the company derives approximately 30 per cent of its net income from its British subsidiaries. Though the volume of sales has actually shown a considerable increase in that country since last September, the usual difficulties of depreciated foreign exchange and increased taxation make the payment of dividends to the parent concern problematical. Under these circumstances the company is expected to earn the regular dividend of $2.40 by a narrow margin if at all. Since the domestic business of Woolworth has made continued gains in recent months, some portion of the lost ground will be recaptured. But until the war is over the stock will sell on a revised base level, giving weight primarily to domestic earnings. The financial position of the company is strong, and the recent expansion of the price ranges covered by the stores to a one dollar maximum has greatly improved profit margins.

Another loser by the war has been American Metal Co., Ltd. The company has substantial interests in what are probably the lowest-cost copper mines in the world. Located in South Africa they have only in recent years come into their own, and the extent of the deposits has not yet been fully determined. These holdings, which make up about 60 per cent of the net assets of the concern, are in the form of shares in Rhodesian Selection Trust, and Roan Antelope Copper Mines. The only unfortunate feature of this is that both these latter are English companies and of course subject to all the various controls that have been instituted as a result of the war. Dividends are payable in sterling which means an exchange loss of considerable importance, and profits are taxable at the new high rates.

British Markets Controlled

The price of copper was fixed by the British Control Board at the outset of the war and the mines contracted to deliver certain amounts of copper over the next twelve months. Since then the Board has raised the price of the red metal, but it does not follow that the producers will receive any more for their output. It merely means that the increased London quotations will compensate for the war risk insurance rates and shipping costs that have turned out to be higher than was at first estimated. With the price of copper subject to control, and operating costs naturally rising, profit margins are also being narrowed considerably.

A further depressing factor in the market for the stock is that American Metal is closely held. Some 42 per cent of the stock is in the hands of eleven individuals and holding companies. The largest holder is Selection Trust, Ltd., which has approximately 300,000 shares. Should the trend of the war go against England to any degree and necessitate the mobilization of capital, the possibility exists that the Government would liquidate this block of stock. In an already thin market, it would be an adverse influence. The position of the stock is bound up with the development of the war, and though the properties represented by the company's investments are sound, the translation of this wealth into dividends is subject to a number *(Please turn to page 445)*

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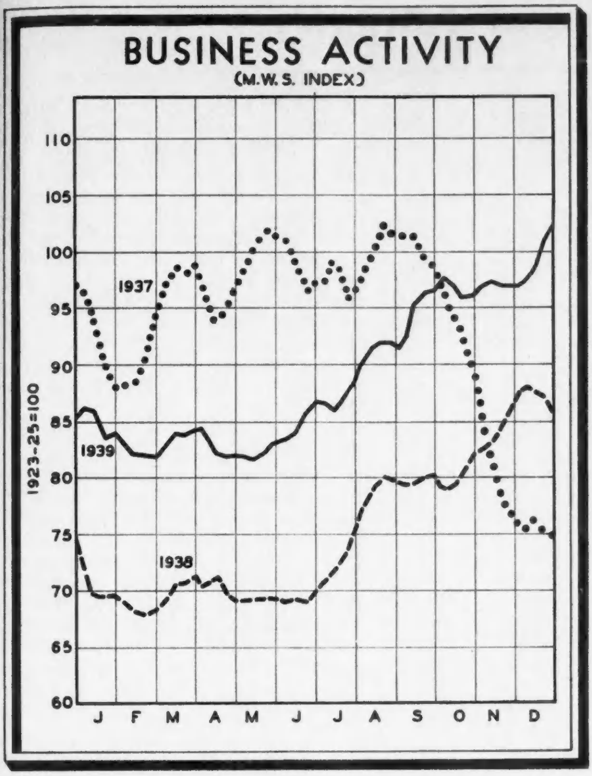

CONCLUSIONS

INDUSTRY—Business ended 1939 at 1937 peak. 1940 expected to average 12% above 1939.

TRADE—Department store sales in week before Christmas spurted to 13% above 1939.

COMMODITIES—Farm commodities irregular; industrial materials firm.

MONEY AND BANKING—Excess reserves resume uptrend. Loans and investments decline.

The Business Analyst

With virtually all components of our Business Index reporting greater than normal seasonal improvement or less than normal seasonal slackening during the past fortnight, the old year has closed with a sharp spurt in the Nation's per capita volume of **Business Activity** to within a small fraction of the 1937 peak of 102.4. This brought December up to 99.9% of the 1923-5 average, compared with 97.0 in November and 87.0 for December of 1938. Fourth quarter average was 97.7, or 16.2% ahead of the corresponding period in 1938. Average for the 1939 calendar year was 89.0, or 18.5% above 1938.

* * *

In the light of developments up to the opening days of the new year, we incline to the opinion that the first quarter, barring heavy winter snow storms or severe spring floods, will witness a much milder business recession than generally expected, and that per capita **Business Activity** for the current year will average not far from 100, or approximately 12% ahead of 1939. This mildly optimistic forecast rests upon the absence of speculative excesses during the year just closed; upon the lack of any incentive to liquidate high grade investment securities; upon probabilities that war-bred demand for basic commodities and our manufactured goods will continue to

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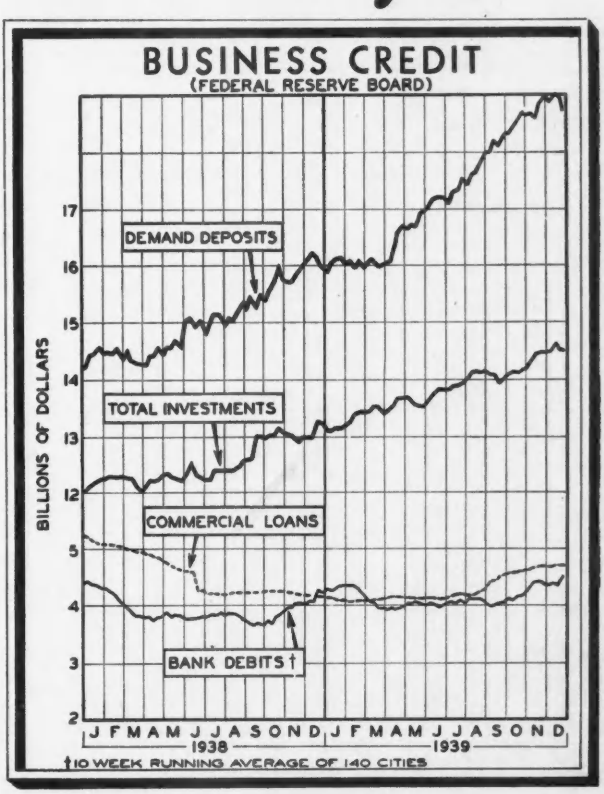


Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION(a)	Dec.	127	124	104
INDEX OF PRODUCTION AND TRADE (b)	Nov.	93	91	84
Production	Nov.	92	90	83
Durable Goods	Nov.	84	80	67
Non-durable Goods	Nov.	97	97	92
Primary Distribution	Nov.	89	88	77
Distribution to Consumers	Nov.	99	96	90
Miscellaneous Services	Nov.	84	83	81
WHOLESALE PRICES (h)	Dec.	79.0(pl)	79.2	77.0
INVENTORIES (n. i. c. b.)				
Raw Materials	Oct.	91.4	89.9	105.8
Semi-Finished Goods	Oct.	92.8	99.2	109.8
Finished Goods	Oct.	112.0	108.1	112.4
COST OF LIVING				
All Items	Nov.	85.7	85.8	85.6
Food	Nov.	79.6	80.1	79.5
Housing	Nov.	86.7	86.6	86.4
Clothing	Nov.	72.9	72.6	73.2
Fuel and Light	Nov.	85.6	85.2	85.9
Sundries	Nov.	96.8	96.8	96.8
Purchasing value of dollar	Nov.	116.7	116.6	116.8
NATIONAL INCOME (cm)†	Nov.	$5,817	$6,204	$5,507
CASH FARM INCOME†				
Farm Marketing	Nov.	$665	$812	$659
Including Gov't Payments	Nov.	740	894	707
Total, First 12 Months	1939	7,625(pl)	......	7,632
Prices Received by Farmers (ee)	Nov.	97	97	94
Prices Paid by Farmers (ee)	Nov.	122	122	121
Ratio: Prices Received to Price Paid (ee)	Nov.	80	80	78
FACTORY EMPLOYMENT (f)				
Durable Goods	Nov.	97.2	94.5	82.1
Non-durable goods	Nov.	109.2	107.6	103.1
FACTORY PAYROLLS (f) (not adjusted)	Nov.	101.8	101.6	84.4
RETAIL TRADE				
Department Store Sales (f)	Dec.	95	94	89
Chain Store Sales (g)	Nov.	117.0	113.3	109.5
Variety Store Sales (g)	Nov.	122.0	115.5	115.4
Rural Retail Sales (j)	Nov.	122.7	123.4	113.1
Retail Prices (s) as of	Dec. 1	91.9	91.2	88.9
FOREIGN TRADE				
Merchandise Exports†	Dec.	$334(pl)	$287.0	$303.6
Cumulative year's total† to	Dec. 31	3,100(pl)	......	3,094.4
Merchandise Imports†	Dec.	257(pl)	214.5	176.1
Cumulative year's total† to	Dec. 31	2,300(pl)	......	1,960.4
RAILROAD EARNINGS				
Total Operating Revenues★	1st 10 ms.	$3,281,797	......	$2,926,919
Total Operating Expenditures★	1st 10 ms.	2,413,033	......	2,257,671
Taxes★	1st 10ms.	301,768	......	286,338
Net Rwy. Operating Income★	1st 10 ms.	456,617	......	274,040
Operating Ratio %	1st 10 ms.	73.53	......	77.13
Rate of Return %	1st 10 ms.	2.07	......	1.24
BUILDING Contract Awards (k)				
F. H. A. Mortgages	Nov.	$299.8	$261.8	$301.7
Selected for Appraisal†	Nov.	80.7	99.2	84.1
Accepted for Insurance†	Nov.	65.0	74.2	58.2
Premium Paying†	Nov.	67.1	61.1	54.3
Building Permits (c)				
114 Cities	Nov.	$85.3	$97.4	$67.5
New York City†	Nov.	15.8	20.5	22.2
Total, U. S.†	Nov.	101.1	117.9	89.7
Engineering Contracts (En)†	Dec.	190.3	302.2	339.3

PRESENT POSITION AND OUTLOOK

(Continued from page 431)

reinforce a major industrial recovery which was already well under way before war was declared, and so lead to gradually rising prices; upon recently received reports of renewed expansion in **new orders** for both consumers' goods and heavy goods; and, perhaps the most convincing of all reasons, upon the fact that the present recovery has proceeded without help from new corporate financing, in the face of Government curtailment in expenditures for new construction, and in spite of widespread business distrust of the New Deal ideology.

* * *

For November, 1939, in comparison with November, 1938, **national income paid out** amounted to $5,817,000,000, a gain of 5.5%; **payrolls** totaled $3,842,000,000, up 6%; **farm income,** including Government payments, came to $740,000,000, up 4.4%; **employment** numbered 46,142,000, up 3.6%; **unemployment** totaled 8,511,000, off 10.5%; and Factory weekly **real wages,** allowing for a trifling rise in the **cost of living,** were up 8%. Dividends declared in December were 30% more liberal than a year earlier, against an increase of only 10% for all of 1939.

* * *

At the end of November, **wholesale prices** were 2.3% higher than a year earlier, **retail prices** were up 3.3% and this Publication's index of **raw material prices** showed an increase of 20%. For the month of November, compared with November, 1938, Producers' sales increased 21%, against 24.9% in October; **wholesale sales** gained 9.2% against 11.5% in October, with month-end **inventories** up only 7%; while **rural retail sales** increased 10%. According to the National Industrial Conference Board, **new orders** booked by manufacturers in November were 57% ahead of the like month in 1938, with month-end backlogs showing an increase of 81%, while **inventories** were up only 4%. **Department store sales** in the week ended Dec. 23 spurted to 13% above last year, making a four-weeks' gain of 5%. Merchandise **exports** in December were 9% above last year, compared with an eleven months' increase of less than 1%; while **imports** jumped 31.5%, against an eleven-months' increase of only 14.8%.

* * *

Carloadings for the current quarter are estimated by the 13 shipper's advisory boards at 5,123,227 cars, an increase of 12.1% over the corresponding first three months of 1939, compared with a 1939 year-end spread of 14%. Among estimated increases in shipments are 74% for Cotton, 45% for Iron and Steel, 25% for Machinery, 21% for Agricultural Implements, 19% for Automobiles and 16% for Paper. **Railroad** net income last year is estimated at $95,000,000 about the same as in 1937, against a deficit of $123,000,000 in 1938.

* * *

Building permits in November were 17% above the like month of 1938, compared with an eleven-months' increase of 22%. **Residential permits** in November were up 45%, against 33% for eleven months. Number of housing units to be erected this year should be 10% above last year and top 1929 by 3%.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Dec.	5,164	5,463	3,143
Pig Iron Production in tons★	Nov.	3,720	3,628	2,270
Shipments, U. S. Steel in tons★	Nov.	1,271	1,219	680
AUTOMOBILES				
Production				
Factory Sales	Nov.	351,782	313,377	372,413
Total 1st 11 Months	1939	3,125,034	......	2,100,739
Registrations				
Passenger Cars, U. S. (p)	Nov.	2,404,629(pl)	......	1,664,904
Trucks, U. S. (p)	Nov.	451,002(pl)	......	340,015
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Nov.	367.6	359.6	323.7
Shipments, U. S. & Canada★ (tons)	Nov.	369.3	368.6	340.7
Mill Stocks, U. S. & Canada★ (tons)	Nov. 30	206.9	208.5	214.9
LIQUOR (Whisky)				
Production, Gals.★	Nov.	8,946	7,074	10,572
Withdrawn, Gals.★	Nov.	10,385	8,550	9,559
Stocks, Gals.★	Nov.	465,934	469,173	466,175
GENERAL				
Paperboard, new orders (st)	Nov.	414,224	497,834	327,168
Railway Equipment Orders (Ry)				
Locomotives	Nov.	41	34	3
Freight Cars	Nov.	7,691	11,220	132
Passenger Cars	Nov.	8	28	32
Cigarette Production†	Nov.	14,461	15,384	13,506
Bituminous Coal Production★ (tons)	Dec.	37,283	42,835	36,541
Boot and Shoe Production Prs.★	Nov.	31,872	37,073	30,054
Portland Cement Shipments★	Nov.	10,146	12,829	8,573
Commercial Failures (c)	Nov.	886	916	984

PRESENT POSITION AND OUTLOOK

Production of **automobiles** in the U. S. and Canada during the current year is estimated tentatively at 4,000,000 units, compared with approximately 3,720,000 in 1939 and 2,655,000 in 1938. U. S. field stocks on Dec. 1 numbered about 185,500 compared with 194,500 a year earlier. Motor vehicle registrations in the U. S. last year set a new high record at 26,250,000 passenger cars and 4,460,000 trucks, against 25,261,649 and 4,224,031, respectively, in 1938. Motor vehicles used 20,787,000,000 gallons of gasoline last year.

* * *

Lumber orders, after slumping during the week of Dec. 2d to a level 22% below the like week of 1938, have since rebounded impressively to a level 10% above the previous year, compared with an increase of 15% for all of 1939. Domestic **paper** mills are mostly "sold out" for duration of the war, with pulp supplies from Scandinavia curtailed by the conflict.

* * *

Nearly 400,000,000 tons of **bituminous coal** were produced last year, an increase of 16% over 1938. Anthracite output approximated 50,000,000 tons—up 11%. **Whiskey** production in November was 14% below withdrawals and 15% below production in November, 1938, leaving stocks about on a level with a year earlier. **Cement** shipments in November were 18% above November, 1938.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. S. W. INDEX OF BUSINESS ACTIVITY 1923-25—100	Dec. 30	102.2(pl)	101.0	85.4
ELECTRIC POWER OUTPUT				
K.W.H.†	Dec. 30	2,404	2,641	2,120
TRANSPORTATION				
Carloadings, total	Dec 30	550,270	654,817	499,455
Grain	Dec. 30	26,441	32,702	25,892
Coal	Dec. 30	130,207	141,891	131,313
Forest Products	Dec. 30	19,766	31,711	17,960
Manufacturing & Miscellaneous	Dec. 30	226,639	268,682	185,205
L. C. L. Mdse	Dec. 30	117,351	144,518	115,082
STEEL PRICES				
Pig Iron $ per ton (m)	Jan. 2	22.61	22.61	20.61
Scrap $ per ton (m)	Jan. 2	17.67	17.67	14.92
Finished c per lb. (m)	Jan. 2	2.261	2.261	2.286
STEEL OPERATIONS				
% of Capacity week ended (m)	Jan. 6	86.0	74.0	52.0
CAPITAL GOODS ACTIVITY (m) week ended	Dec. 30	99.4	104.8	75.6
PETROLEUM				
Average Daily Production bbls.★	Dec. 30	3,545	3,868	3,204
Crude Runs to Stills Avge. bbls.★	Dec. 30	3,445	3,395	3,160
Total Gasoline Stocks bbls.★	Dec. 30	80,985	78,707	71,542
Gas Fuel Oil Stocks, bbls.★	Dec. 30	102,153	102,439	114,479
Crude—Mid-Cont. $ per bbl	Jan. 6	1.02	1.02	1.02
Crude—Pennsylvania $ per bbl	Jan. 6	2.23	1.98	1.28
Gasoline—Refinery $ per gal	Jan. 6	0.06⅝	0.06⅝	0.05⅞

PRESENT POSITION AND OUTLOOK

Report of the **electric power** industry for 1939, as compared with 1938, shows gross revenues of $2,304,000,000, an increase of 6.1%; net earnings up about 10%; sales of industrial power up 20%, with rates off 17%; sales to commercial users up 9%; and rates to household users off 4%, making a total reduction of over 50% in the past ten years. Further encroachment by the Government upon the **utility** industry is likely to be opposed by Congress.

* * *

Present indications are that the first quarter recession in **steel operations** will be milder than at first expected. Operations were resumed after the holidays at 85.7% of capacity, compared with 90.0% for the week preceding Christmas. This slackening upon the opening of a new year was only a little greater than normal. World production of steel ingots and castings last year totaled 135,000,000 gross tons, an increase of 25.3% over 1938. The U. S. led with 47,500,000 tons, a jump of 59% over 1938. Germany was second and Russia third.

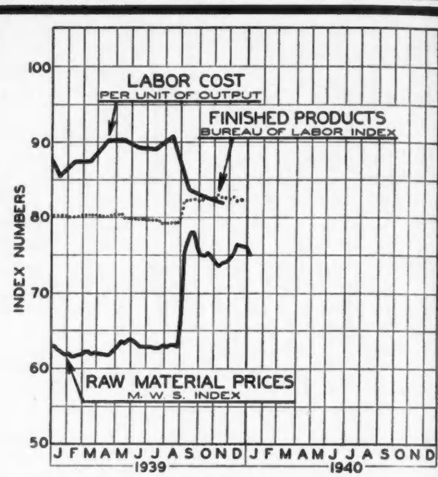
* * *

World production of **petroleum** last year came to 2,150,000,000 barrels, 4.4% above 1938. Bureau of Mines estimates January demand for crude will be 7% above last year, including a 28% increase in exports. Domestic **gasoline** stocks are expected to reach 95,000,000 barrels by March 31.

†—Millions ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (En)—Engineering News Record. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. In. Conf. Bd. 1936—100. (p)—Polk estimates. (pl)—Preliminary. (r)—Revised. (Ry)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

Trend of Commodities

The first week of 1940 was marked by irregularity in most commodities in which there is an active trading interest. With the exception of wheat, which was under the influence of more favorable weather reports in the winter belt, price changes were not marked and lacked any particular significance. As a longer term influence upon commodity prices, the war is unquestionably the most potent inflationary factor. But more effective in determining the near term trend of commodity prices will be the conventional factors of supply and demand. Notwithstanding the almost unanimous predictions of higher prices this year, industrial buyers are proceeding cautiously. Prices, as measured by representative indexes, at the beginning of the current year were only slightly higher than at the start of 1939, the sharp rise following the war having started from almost the lowest levels in five years.



Changes in Major Commodity Price Groups for the Fortnight Ended Dec. 30, 1939

Farm Products	68.5	down 0.3	Metals	96.1	no change
Foods	71.9	up 0.8	Building Material	93.1	down 0.3
Hides and Leather	104.1	up 0.1	Chemical	78.1	up 0.5
Textiles	78.6	up 1.9	Housefurnishings	90.1	down 0.8
Fuel and Lighting	73.4	down 0.3	Miscellaneous	77.7	up 0.8

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
March	Jan. 6	11.34	11.15	8.35
May	Jan. 6	10.97	10.74	8.13
Spot	Jan. 6	11.46	11.36	8.85
(In bales 000's)				
Visible Supply, World	Jan. 6	(X)	(X)	......
Takings, World, wk. end	Jan. 6	(X)	(X)	......
Total Takings, season Aug. 1 to	Jan. 6	(X)	(X)	......
Consumption, U. S.	Nov.	719	687	596
Exports, wk. end	Jan. 5	203	100	52
Total Exports, season Aug. 1 to	Jan. 5	3,116	2,914	1,924
Government Crop Est. (final)	Dec. 1	11,792	......	11,943(ac)
Active Spindles (000's)	Nov.	22,774	22,659	22,447
WHEAT				
Price cents per bu. Chi. closing				
May	Jan. 6	1.03⅝	1.04	69¾
July	Jan. 6	1.01¼	1.01⅞	69⅞
Exports bu. (000's) since July 1 to	Dec. 30	62,653	59,736	84,244
Exports bu. (000's) wk. end	Dec. 30	2,917	1,500	1,115
Visible Supply bu. (000's) as of	Dec. 30	118,629	120,715	114,672
Gov't Crop Est. bu. (winter) (000's)	Dec. 1	399,000	......	563,431(ac)
CORN				
Price cents per bu. Chi. closing				
May	Jan. 6	59⅛	58⅝	53½
July	Jan. 6	59⅝	59⅛	54½
Exports bu. (000's) since July 1 to	Dec. 30	11,768	10,810	51,188
Visible Supply bu. (000's) as of	Dec. 30	43,638	42,324	48,866
Gov't Crop Est. bu. (000's) (final)	Dec. 1	2,619,137	......	2,562,197(ac)

PRESENT POSITION AND OUTLOOK

Cotton. The 1939-40 crop year promises to bring a sizable reduction in the huge surplus of American cotton, as a result of the timely intervention of a sustained buying wave which originated simultaneously both in the United States and abroad. For the past four months domestic buying has been at the rate of 8,000,000 bales annually and it has been conservatively estimated that consumption for the full crop year will run well in excess of 7,000,000 bales. Meanwhile foreign demand has mounted steadily and combined domestic and export demand is being estimated at about 15,000,000 bales. Prices should continue to hold fairly firm.

* * *

Wheat. The decline in wheat prices at the close of the past week had its origin in speculative liquidation influenced by lower prices in Winnipeg and the reactionary tone in the stock market. Recent snows in the winter wheat belt supplied much needed moisture but are reported to have been inadequate to protect against subsequent sub-zero temperatures.

* * *

Corn. Acreage allotments for the current year are 12% under 1939. Export interest is active and prices have displayed firmness.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Jan. 6	12.50	12.50	11.25
Export f.a.s. N. Y.	Jan. 6	12,35	12.30	......
Refined Prod., Domestic (tons)	July	57,339	61,719	35,596
Refined Del., Domestic (tons)	July	59,681	53,573	48,071
Refined Stocks, Domestic (tons)	July 31	316,543	335,017	339,997
Refined Prod., World (tons)	July	158,236	173,205	139,483
Refined Del., World (tons)	July	181,487	180,433	177,580
Refined Stocks, World (tons)	July 31	490,419	513,670	523,196
TIN				
Price cents per lb., N. Y.	Jan. 6	47.50	49.25	46.85
Tin Plate, price $ per box	Jan. 6	5.00	5.00	5.00
World Visible Supply† as of	Dec.	38,280	38,035	37,712
U. S. Deliveries†	Dec.	11,366	7,870	3,400
U. S. Visible Supply† as of	Dec.	15,965	21,058	9,307
LEAD				
Price cents per lb., N. Y.	Jan. 6	5.50	5.50	4.85
U. S. Production (tons)	Nov.	48,467	42,563	35,958
U. S. Shipments (tons)	Nov.	64,365	66,060	42,032
Stocks (tons) U. S., as of	Nov. 30	58,061	73,963	115,236
ZINC				
Price cents per lb., St. Louis	Jan. 6	5.75	5.75	4.50
U. S. Production (tons)	Dec.	57,941	53,524	45,345
U. S. Shipments (tons)	Dec.	53,468	64,407	39,052
Stocks (tons) U. S., as of	Dec.	65,995	61,522	126,604
SILK				
Price $ per lb. Japan xx crack	Jan. 6	4.15	4.32½	1.83
Mill Dels. U. S. (bales), season to	Nov. 30	32,241	41,858	41,599
Visible Stocks N. Y. (bales) as of	Nov. 30	41,927	35,935	46,218
RAYON (Yarn)				
Price cents per lb.	Jan. 6	53	53	51
Consumption (a)	Dec.	30.9	32.8	26.2
Stocks as of (a)	Dec.	6.8	7.6	39.5
WOOL				
Price cents per lb. tops, N. Y.	Jan. 6	1.13	1.15½	.85
HIDES				
Price cents per lb. No. 1 Packer	Jan. 6	15	15	12
Visible Stocks (000's) as of	Dec. 1	12,592	12,413	13,501
No. of Mos. Supply as of	Dec. 1	6.8	6.2	7.6
RUBBER				
Price cents per lb.	Jan. 6	19.12	19.10	16.12
Imports, U. S.†	Nov.	42,586	41,250	31,054
Consumption, U. S.†	Nov.	54,322	55,764	49,050
Stocks, U. S. as of	Nov.	118,535	133,183	242,542
Tire Production (000's)	Nov.	4,867	5,431	4,139
Tire Shipments (000's)	Nov.	4,244	5,188	4,405
Tire Inventory (000's) as of	Nov.	9,244	8,657	7,924
COCOA				
Price cents per lb. May	Jan. 6	5.58	5.85	4.66
Arrivals (thousand bags)	Dec.	271	434	243
Warehouse Stocks (thousand lbs.)	Jan. 5	1,107	1,116	966
COFFEE				
Price cents per lb. (c)	Jan. 6	7½	7½	7¾
Imports, season to	Oct. 31	5,652	4,255	5,659
U. S. Visible Supply (bags 000's)	Dec. 1	1,825	1,977	1,522
SUGAR				
Price cents per lb.				
Raw	Jan. 6	2.82	2.80	2.80
Refined (Immediate Shipment)	Jan. 6	4.60	4.70	4.45
U. S. Deliveries (000's)*	1st 11 mos.	6,183	......	5,944
U. S. Stocks (000's)* as of (rr)	Nov. 30	789.7	......	679.9

PRESENT POSITION AND OUTLOOK

Copper. In the absence of active buying interest, the biggest news concerning copper is the recent announcement that the Copper Institute will resume the publication of statistics on domestic copper, which have been withheld since last July. Data of foreign consumption, production, etc., will not be available. Domestic sales in December totaled 29,211 tons compared with 51,592 in November. Export demand has picked up somewhat and prices are firmer.

* * *

Tin. Prices have displayed a firm undertone. World visible supplies increased 245 tons during December despite record-breaking American deliveries. Total world supplies at the year end were off 3,389 tons and totaled 25,595 tons compared with 21,958 at the end of 1938. Tin plate operations have increased moderately.

* * *

Lead. Although buying has been at a standstill, sales are expected to increase in the near future and prices are firm. Lead continues to be favored by an excellent statistical position.

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Zinc. The reduction in zinc prices to 5.75 cents is the second in recent weeks and the failure of buyers to show any interest at the lower level suggests that further reductions may be in the offing. Curtailed steel activities destined in the near future were probably responsible.

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Silk. Although prices have reacted from the ten-year highs made late last December, there is slight chance that the decline will carry very far. Lower output and increased Japanese consumption would seem to guarantee tight supplies and sustained high prices for some time to come.

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Rayon. Preliminary estimates indicate a new high record in rayon shipments last year and a 30% gain over 1938. Consumption also made a new record and stocks at the end of the year were at an absolute minimum.

* * *

Hides. Following a brief flurry, interest in the spot market has turned lethargic. Tanners are holding off but sentiment among packers continues bullish.

* * *

Rubber. The domestic spot supply situation is promised considerable relief in the near future. World production for three months has been running in excess of consumption. Tire sales this year may be somewhat under the high levels of 1939. Finished inventories rose more than 1,000,000 units in the fourth quarter, an increase which may have been at the expense of current output.

* * *

Cocoa. After a persistent advance in the closing sessions of 1939, cocoa was somewhat lower during the past week. The decline, however, was modest. No word has been forthcoming as to what the British Control Board intends to do about the large West Coast crop. There have, however, been no attempts to restrict prices.

* * *

Sugar. Following the restoration of domestic quotas, Secretary Wallace fixed consumers' needs at 6,725,000 short tons, a figure lower than was generally expected. Cuban producers will have the benefit of a lower tariff and a fixed 28% of the domestic market.

†—Long tons. *—Short tons. (a)—Million pounds. (ac)—Actual. (c)—Santos No. 4 N. Y. (pl)—Preliminary. (rr)—Raw and refined. (X)—No foreign statistics allowed to be sent from abroad because of war conditions.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Jan. 6	1¼%	1¼%	1¼%
Prime Commercial Paper	Jan. 6	½-¾%	½-¾%	⅝-1%
Call Money	Jan. 6	1%	1%	1%
Re-discount Rate, N. Y.	Jan. 6	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Dec. 30	2,633	3,041	2,254
Cumulative year's total to	Dec. 30	132,736	......	122,009
Bank Clearings, N. Y.	Dec. 30	3,397	4,300	3,620
Cumulative year's total to	Dec. 30	171,587	......	170,702
F. R. Member Banks				
Loans and Investments	Dec. 27	23,260	23,465	21,649
Commercial, Agr., Ind. Loans	Dec. 27	4,400	4,406	3,843
Broken Loans	Dec. 27	715	852	848
Invest. in U. S. Govts	Dec. 27	8,748	8,762	8,266
Invest. in Govt. Gtd. Securities	Dec. 27	2,414	2,404	1,732
Other Securities	Dec. 27	3,340	3,367	3,221
Demand Deposits	Dec. 27	18,720	18,923	15,986
Time Deposits	Dec. 27	5,274	5,255	5,130
New York City Member Banks				
Total Loans and Invest.	Jan. 3	8,703	8,840	7,707
Comm'l Ind. and Agr. Loans	Jan. 3	1,668	1,689	1,377
Brokers Loans	Jan. 3	538	551	717
Invest. U. S. Govts	Jan. 3	3,285	3,372	2,748
Invest. in Gov't Gtd. Securities	Jan. 3	1,233	1,231	856
Other Securities	Jan. 3	1,160	1,178	1,040
Demand Deposits	Jan. 3	8,301	8,321	6,617
Time Deposits	Jan. 3	659	655	609
Federal Reserve Banks				
Member Bank Reserve Balance	Jan. 3	11,721	11,493	8,819
Money in Circulation	Jan. 3	7,581	7,663	6,739
Gold Stock	Jan. 3	17,697	17,620	14,565
Treasury Currency	Jan. 3	2,963	2,963	2,800
Treasury Cash	Jan. 3	2,367	2,417	2,725
Excess Reserves	Jan. 3	5,270	5,050	3,300

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Dec.	221.3	112.2	296.8
New Capital	Dec.	27.0	21.4	46.6
Refunding	Dec.	194.3	90.8	237.2

* * *

Reflecting the customary post-holiday return of currency to banks and the continued inflow of gold, the upsurge in excess reserves has been resumed. In the latest week excess reserves gained $220,000,000. It is a foregone conclusion that the time is not far distant when new high records will be set. The present session of Congress appears certain to bring renewed attempts to introduce legislation for the extension of Federal control over credit. What form such legislation may take is anyone's guess.

* * *

In the most recent week **New York City Member Banks** reported a decline of $137,000,000 in earnings assets—loans and investments. This was the third successive decline, the cumulative total of the drop since mid-December amounting to $525,000,000. The decline in borrowings by commerce, industry and agriculture, reflecting seasonal influences, amounted to $21,000,000, bring the total decline for the past three weeks to $43,000,000. The decline in investments in the most recent week totaled $103,000,000. Holdings of Treasury bills were down $65,000,000. This drop reflected largely the demand for bill by Chicago banks in anticipation of the March 31 tax period. Local banks also sold Treasury notes and U. S. Governments to the tune of $22,000,000. Other securities were off $18,000,000. The only increase was shown in holdings of government-guaranteed issues which rose $2,000,000.

* * *

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues	(1925 Close—100)	1939-40 Indexes Dec. 16	Dec. 23	Dec. 30	Jan. 6
316	COMBINED AVERAGE	64.7	64.2	64.5	66.4
5	Agricultural Implements	105.4	102.5	101.2	103.0
6	Amusements	27.6	27.6	27.1	28.1
15	Automobile Accessories	87.4	86.0	88.4	88.1
12	Automobiles	11.4	11.3	11.2	11.7
11	Aviation (1927 Cl.—100)	195.7	197.1	198.2	197.9
3	Baking (1926 Cl.—100)	11.2x	11.7	11.3	11.6
3	Business Machines	110.8L	114.0	113.8	117.3
9	Chemicals	166.0	167.0	166.9	173.3
20	Construction	32.8	32.2	32.6	33.6
5	Containers	226.8	224.9	223.2	228.2
9	Copper & Brass	101.3	100.6	99.2	100.0
2	Dairy Products	29.0	30.3	30.8	31.5
8	Department Stores	20.7	20.7	20.7	20.9
7	Drugs & Toilet Articles	45.5	45.9	45.9	47.1
2	Finance Companies	257.0	261.4	266.0	270.7
7	Food Brands	95.0	93.8	96.4	102.9
3	Food Stores	46.3	46.7	46.9	46.5
4	Furniture	56.9	55.5	54.9	56.9
3	Gold Mining	917.0	933.7	929.7	968.7
6	Investment Trusts	22.6	22.5	22.8	23.8
4	Liquor (1932 Cl.—100)	141.6	154.1	150.0	153.9
9	Machinery	114.5	113.8	113.5	116.2

No. of Issues	(Nov. 14, 1936, Close—100)	1939-40 Indexes Dec. 16	Dec. 23	Dec. 30	Jan. 6
100	HIGH PRICED STOCKS	66.84	66.66	66.81	67.09
100	LOW PRICED STOCKS	56.38	56.65	56.10	58.67
2	Mail Order	91.0	91.7	93.2H	93.1
4	Meat Packing	55.1	54.4	54.0	55.6
14	Metals (non-Ferrous)	158.4	157.0	156.6	157.9
2	Paper	14.4	14.5	14.5	14.9H
24	Petroleum	81.3	82.2	83.0	86.8
18	Public Utilities	52.3	52.4	53.5	57.6
4	Radio (1927 Cl.—100)	11.0	10.8	10.5	11.1
9	Railroad Equipment	54.2	53.1	53.2	52.2
22	Railroads	13.7	12.9	13.2	13.6
2	Realty	2.2	2.1R	2.4	2.6
2	Shipbuilding	77.1	75.4	73.5	80.7
13	Steel & Iron	87.6	85.6	84.8	85.9
2	Sugar	28.8	28.5	28.7	27.1
2	Sulphur	161.3	162.6	162.1	167.3
3	Telephone & Telegraph	45.8	45.5	45.8	47.5
4	Textiles	55.3	54.2	54.1	53.0
4	Tires & Tobacco	15.2	15.6	15.2	15.2
4	Tobacco	82.8	84.1	86.5	88.1H
4	Traction	35.8	35.1	35.3	38.0
4	Variety Stores	232.8	233.4	234.0	237.9
20	Unclassified (1938 Cl.—100)	92.7	89.4	90.4	93.9

H—New HIGH since 1937. x—New LOW this year. L—New LOW since 1937. R—New LOW record since 1929.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities.*
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

Westvaco Chlorine Products

By heeding your counsel, I now show a nice profit on 150 shares of Westvaco Chlorine common for which I paid 26. Do you still advise holding this stock? I understand the gain in earnings in the September, 1939, quarter was due mainly to new products sold to the textile and steel industries. Do you think diversification of products has minimized seasonal fluctuations for this company's sales? Please give me your latest analysis. —A. N. Y., Oak Park, Ill.

Westvaco Chlorine Products Corp. is an important producer of chlorine and caustic soda, most of which is sold under contract to a subsidiary of Union Carbide & Carbon. Chlorine is sold for use in numerous chemical processes, in treatment of drinking water and sewage, and as a bleaching agent, and is used by the company in the manufacture of other products. Caustic soda is used in the pulp and paper, rayon, textile, soap and oil industries, as well as various chemical processes. Carbon bisulphite, carbon tetrachloride and related products, as well as phosphates, are also produced and sold and are used in the rayon and rubber goods industries, in the manufacture of fire extinguisher fluid and in petroleum refining, as well as in the production of baking powder, cheese and other food products and drugs. Recent products added to the company's line give further outlets in the rayon industry and among the manufacturers of refractory bricks used in steel furnaces. Earnings in each quarter of the current year have shown increases over those of the corresponding periods of last year, and for the first nine months of 1939, the company reported profits equivalent to $1.91 per share, as against $1.02 a share for the same period last year. Accordingly, full year earnings results should be well improved over the $1.52 per share reported a year ago. The company has had a relatively good record for the past several years, sales having increased in each year from 1932 onward, but higher costs and taxes have not permitted a corresponding growth in net earnings, though net has shown an irregularly upward trend and has averaged about $1.50 a share for several years past. It would now appear, however, that steady growth in earnings is in prospect, aided at least in part by continued diversification of products. Finances are satisfactory, the balance sheet for September 30, 1939, disclosing current assets of $4,204,180, including cash of $1,988,420, as against total current liabilities of only $762,180. Capitalization is relatively simple, consisting of 192,000 shares of $5 cumulative convertible preferred stock, convertible at the present time into one share of common stock, and 339,362 shares of common. Dividends are likely to be continued at about current levels with the possibility of at least a moderate increase in the not too distant future. With the optimistic view which can be taken toward the company's possibilities over the near term, we feel that retention of your holdings for further appreciation possibilities will prove worthwhile.

U. S. Tobacco Co.

May I have your most recent appraisal of U. S. Tobacco Co. common? I own 75 shares purchased at 35 and as of today, show a slight profit. However, am more interested in income potentialities for these shares in future. Therefore, would you include an analysis of earnings trend and outlook for 1940, potential domestic and foreign orders and profit margins?—D. K., Lansing, Mich.

U. S. Tobacco Co. is the world's largest manufacturer of snuff. Unlike some of its competitors, the concern enjoys nationwide distribution of its two well-known brands—Copenhagen and Bruton's Scotch. Dill's Best and Model smoking tobaccos, as well as Moosehead Right Cut and W. C. chewing tobaccos are also manufactured. Although snuff continues to account for the bulk of sales and earnings, the smoking tobacco division is constantly growing in importance as a result of aggressive promotional ac-

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tivities. Foreign business is of little importance. Profit margins are said to be relatively large and generally little changed from year to year. Consequently, with sales relatively stable, earnings have remained on a fairly level keel for a number of years. Profits rose gradually from the equivalent of $1.30 per common share in 1929 to the equal of $2.22 per share in 1936, only to recede moderately downward to $1.80 and $1.74 a share respectively in 1937 and 1938. Finances are liquid and strong and capitalization is rather simple, in that the 1,831,400 shares of common stock are preceded in the capital structure by only 93,200 shares of $1.75 preferred stock. The organization does not follow the practice of issuing interim earnings reports but 1939 results of approximately $1.90 a share are expected. Sales may expand moderately this year as a result of increasing public preference for the company's smoking tobaccos and somewhat better demand for snuff. Tobacco costs will be lower and profits may possibly score modest gains. Dividends have been paid at varying rates in each year since 1912 and 1940 distributions are likely to be little, if any changed from 1939 payments of $1.76 a share. The stock is primarily attractive for its income producing ability and may well be held on that basis.

Crocker-Wheeler Elec. Mfg. Co.

Crocker-Wheeler stock on the Curb seems to be acting sluggishly in view of a fairly large backlog of government orders. Can you explain? At the same time, please have your Personal Inquiry Department give me the latest appraisal, including recent trend of gross and net business, profit margins and earnings and dividend outlook. I hold 100 shares purchased at 10 in 1938.—Mrs. O. P. M., Boston, Mass.

Crocker-Wheeler Electric Mfg. Co. is a comparatively small company concerned with the production of generators, electric motors, transformers and related equipment used in the utility and general industrial fields as well as airplanes and ships. A greater degree of product diversification has been obtained by the initiation of a household appliance division through which new products are being introduced from time to time. However, profits currently tend to follow the trends of industrial activity in general. After a four-year lag, profitable operations were resumed in 1935. Net income expanded through 1937 when 44 cents a share was earned but last year activities declined sharply and a loss of 51 cents a share was incurred on each of the 290,500 shares of common stock (sole capitalization) currently outstanding. At last accounts finances were somewhat restricted, in that notes payable of $255,000 exceeded cash assets by approximately $158,000. A loss of 9 cents a share was reported in the initial half of 1939 as against actual earnings of 43 cents a share in the January-June interval of 1938. These are the latest earnings available but full year results may be in the neighborhood of 15 cents a share. The appliance division may grow slowly but is of little import to earnings at this time. Unfilled orders for heavy electrical equipment are substantial and a continued satisfactory flow of incoming business is expected over the next several months. However, profit margins are narrow and are likely to continue as such in view of the rather sharp competitive conditions common to the field. Nevertheless, earnings could record modest gains over the stretch ahead. Recent figures on gross and net business are not available. The concern has never been a large earner and the shares appear lacking in sponsorship, which facts may account for recent relative unfavorable market performance. Dividend resumption is uncertain. Although the shares are not outstandingly attractive at this time, speculative commitment might be held temporarily, at least.

Life Savers Corp.

Do you recommend Life Savers common shares as a safe investment for steady income? I have been impressed with company's ability to maintain a fairly steady earnings keel in depressed periods. To what extent would profit margins be affected by further advances in sugar prices? Am holding a total of 150 shares which cost an average of 41¼.—L. D. P., Atlanta, Ga.

For those primarily interested in income, the stock of Life Savers is an attractive holding. Earnings vary little from year to year and since 1932 have averaged about $2.50 per share through 1938. Results this year, judging from nine months earnings of $2.32 per share as against $2.23 per share for the corresponding period last year, should be moderately improved over 1938 results of $2.81, and should be in the neighborhood of $3.00, both figures on a per share basis. The company is the dominant factor in the packaged hard candy field, accounting for about 90% of domestic sales of mints and approximately 60% of volume of fruit drops. In addition, the company manufactures two types of throat tablets. Distribution is rather wide, products being sold directly to large chain organizations and through some eight thousand wholesalers and are distributed to consumers through more than three hundred thousand retail outlets. Basic lines are continued from year to year, but new flavors are occasionally added and slow selling lines dropped. The low price of each item makes for a steady sales volume, although higher or lower levels of consumer purchasing power affects volume to some extent. Profit margins are affected only to a small extent by changing ingredient costs and sufficient inventories should protect the company against rising sugar prices in the immediate future. Since separation from Drug Inc. in 1933, dividends have been liberal in line with earnings and will likely continue so over coming months, so that 1940 disbursements should be in the neighborhood of the $2.60 per share paid in 1939. Working capital position is adequate and we recommend retention of the stock primarily for the income which it affords.

Consolidated Aircraft Corp.

Are present production facilities of Consolidated Aircraft Corp. being expanded to care for large backlog of Army and Navy orders? Are profit margins comparable to those of other large aircraft manufacturers? What is extent of foreign business? At present, I hold 120 shares of the common at 33⅛. Do you counsel retention?—P. L. N., Sacramento, Calif.

Recent reports place unfilled orders of Consolidated Aircraft in the neighborhood of $37,000,000, most of this business being for the United States Army and Navy. Commercial and foreign bookings are negligible, but orders from these sources, as well as further contracts from the Army and Navy, are a distinct possibility. Earnings have expanded

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Niles-Bement-Pond

(*Continued from page 425*)

The United Aircraft stock held by Niles-Bement-Pond was received in payment along with a sum in cash for its interest in the Pratt and Whitney Aircraft Co. This latter was formed in 1925 by the parent company and Pratt and Whitney, an operating subsidiary, and then sold out in 1929.

Niles-Bement is an old company. It was founded in 1899 as a consolidation of several machine tool concerns that were all well established even at that time. The general trend of earnings has been up as the mechanization of industry increases, and an expansion program has been carried on with extreme caution because the volatile nature of the business makes it hard to survive an over-extended position in the face of a decline. The three deficits that were reported during the last decade came at the bottom of the depression, but were not serious. In fact the net earnings of $7.36 per share for the record year 1937 were more than equal to the sum total of all three deficits. In 1938 earnings dropped in common with the rest of the industry, but the net was $4.88 per share and reflected a much smaller decline than most companies in the same field experienced.

Capital structure of the company is simple, consisting solely of 173,025 shares of common stock. With no funded debt or preferred stock outstanding the full benefits of operations go right through to the stockholders. Incident upon building the new plant, the company borrowed $1,500,000 from banks on long term, low interest rate notes. The additional $1,000,000 that the plant cost came from cash and current earnings. The 1938 statement showed the company to be in a strong position with current assets totaling $6,847,-996 of which cash alone was equal to practically twice current liabilities of $864,397. Receivables of one type and another stood at approximately $960,000 which in terms of net sales for the year of around $8,000,000 might seem slightly out of line, were it not for the type of customer it serves. The statement

IN THE NEXT ISSUE LOOK FOR

Gauging Business Ahead by Orders

By John D. C. Weldon

also showed that the company has 24,741 shares of its own stock in the treasury. At the current market price this is worth around $1,590,000 or as much as the bank loan incurred this year.

Since the war occasioned a large portion of the current orders for machine tools, there is some fear that a cessation of hostilities would throw the industry into confusion. While this is undoubtedly so to a degree, its importance has a tendency to be over-exaggerated. Domestic orders have been increasing in volume steadily, and as was mentioned before, the majority of concerns are both giving preference to these orders and keeping prices down. Of course exports continue to bulk large in the industry's business, but they do not all stem from the Allied war demands. Many of them come from other countries that were formerly supplied by Germany and are now turning to us. This represents an excellent opportunity to capture these markets.

At its present level of around 65 the stock is about one third of the range for the year from its high of 76. A modest capitalization together with demonstrated earning power make it a rather high priced issue, but even on the basis of last year's earnings it is selling at only a little over eleven times its per share profit. In view of the present rate of operations and the potentialities that the stock offers this ratio seems a relatively conservative one.

Niles-Bement-Pond, however, has established an excellent earnings record, and given evidence of ability to expand profitably when conditions are right. The future of the company, though, will naturally depend on the future of its customers. The need for capital equipment is great if production is to climb back to its former heights, and the machine tool industry will continue to respond as it is right now to any forward trend. These factors combine to make Niles-Bement a favored issue on the strength of continued progress in business.

Douglas Aircraft

(Continued from page 421)

installation of interior equipment flight tests for the Civil Aeronautics Authority were made. Following these and other tests and inspections the company was ready to receive orders. Thus far United Air Lines has placed orders for ten of these models at a total cost of $3,400,000, which replaces a previous contract for six planes at $500,000 each. Hence it is readily apparent that once a substantial volume of business is obtained both costs and selling prices can be quickly reduced along lines which are now familiar principles of mass production. Considerable interest in the DC-4 has also been elicited by the Royal Dutch Air Lines, which was reported having placed an order for six planes.

In 1931 John K. Northrup, a Douglas engineer, organized his own company with the aid of his former employer. This eventually resulted in Douglas Aircraft obtaining a 49% minority interest in the new organization in 1937. Northrup is considered by many as one of the most ingenious minds in the industry with

marked inventive proclivities. For instance the "flying wing" and what is known as the multicellular wing construction are two developments attributable to the genius of Northrup. As a matter of fact it is evident that every successful aircraft unit is the product of some one, or perhaps two, engineering brains. In other words the industry is still at that embryonic stage where individual companies rely largely upon the ability of only a few men. It remains as yet to be seen just what is to happen when, and if, any large company loses its guiding genius.

But the proof of the pudding is in the eating, and the ability of these executives is demonstrated by the fact that at this writing Douglas' 600,000 shares of (no par) common stock, its sole capital, sell in the open market for approximately $48,000,000. When it is recalled that the initial investment consisted of $15,000 of borrowed money some 18 years ago the record is phenomenal, not to mention impressive. As of August 31, 1939, current assets totaled $15,351,671; cash, $6,265,408 and current liabilities, $3,701,194. Thus working capital ratio stood 4.1 to 1. The fact that cash alone was better than one and one-half times current liabilities is further evidence of the financial soundness of this company.

From a stock market viewpoint these shares rank as a leader in the aviation group. Though fluctuations appear to cover a wide range actually on a percentage basis their variation is quite normal for this type of security. In August, 1939, a block of 29,320 shares was sold to a Dutch banking group at $63.50 per share. At the time it was understood that the foreign group was paying from $3 to $4 a share more than the company was able to obtain in the domestic market. This represented the transfer of about 5% of the outstanding stock to foreign hands, and yielded the company the sum of $1,851,820.

In conclusion it should be pointed out that Douglas has with few exceptions stuck to a policy of going after United States Government business. Since the Government is the largest potential purchaser of planes in quantity and has at the same time unassailable credit the wisdom of this procedure is evident. Secondly, it has always been a policy to maintain the very best of engineering facilities and personnel and sums were appropriated for this undertaking in far larger amounts than was the case with most companies. In addition, as a result of cooperation with the University of California, an exchange of theoretical and practical developments in the science of aeronautics was maintained. This gave the company not only knowledge, but its pickings of the best engineers graduating from the University. Inspiration for this idea is given Dr. Robert Millikan, the famous physicist.

With profit margins on the vast quantity of foreign business undoubtedly liberal, while those on U. S. Government contracts averages around 12%, or better, after giving effect to certain deductions, it appears at this writing that earnings should continue to improve. Because of the vast sums constantly being appropriated to research and experimentation it is nevertheless difficult to make any precise forecast of earnings. Assuming profit margin of around 15%, averaging

10 to 12% return on domestic business with somewhat higher margin on foreign orders, it would probably be possible for Douglas to earn around $15 per share when annual deliveries reach maximum capacity. On the same basis an overall profit margin of 10% would produce earnings around $10 per share. These estimates assume no changes in present taxes. While the stock may go much higher, its speculative vulnerability should be duly noted. Under eventual world peace, Douglas would remain at or near the top of its industry but the transition from war could hardly come about without temporary readjustment—possibly drastic—of the stock market status of all aircraft manufacturing equities.

Answers to Inquiries

(*Continued from page* 438)

almost uninterruptedly since 1932, when a deficit of 49 cents per share was reported, to 1938 when profits were equivalent to $2.55 per share, a slight decline in 1936 being the only exception. Deliveries during 1939 were probably somewhat lower than in the preceding year and consequently earnings for this year may be moderately below those reported for a year ago. Profit margins are not constant since the practice of the company of deferring profits on related contracts until these are virtually completed has a tendency to inflate net income one year and reduce it drastically in another annual period. Margins may, however, be somewhat better in the future as a result of a recent agreement with the United States Treasury Department, and the high level of orders on hand point toward satisfactory earnings over coming months. Finances are relatively strong, the latest balance sheet disclosing cash alone as being well in excess of total current liabilities. Dividends were not initiated until 1937, in spite of moderate earnings, in order to bolster working capital position, and the possibility of plant expansion necessary to handle increased business makes an early distribution on the common stock rather problematical. The $3 non-cumulative preferred stock outstanding in the amount of 23,708 shares, each share convertible into two shares of common stock, and 574,760 shares of common stock comprise the capitalization of the company. With the greater part of its business at the present time being domestic, sales and profits are likely to be at relatively high levels over coming months, regardless of the length of the war in Europe. Accordingly, the earnings picture is bright and we feel that retention of these shares is advisable.

American Gas & Electric Co.

Does the refunding of preferred and debentures of American Gas & Electric at a lower rate indicate a better prospect for the common stock during 1940? Have 100 shares at 39¾. What probable effects will compliance with integration requirements have on company's earnings? What action do you counsel for the near term?—far term?—Dr. T. W., Providence, R. I.

The various operating units controlled by the American Gas & Electric Co. operate in highly industrialized regions from Virginia to Michigan. In spite of the fact that sales of electric power are largely to industrial customers, substantial minimum earning power has been recorded. From a depression low of $1.66 per common share in 1934, earnings expanded to the equal of $2.57 a share in 1937, but receded moderately last year when $2.23 a share was reported. Finances are in sound shape. Revenues expanded some $4,000,000 in the twelve months ended October 31st last, and earnings for the interval increased to $2.53 per common share from $2.16 a share the year before. Additional profits progress is possible over the period ahead in line with well-maintained levels of industrial activity in the various territories served. Certain well informed sources say that current refinancing will save about $1,000,000 or 22 cents on each common share. Compliance with the provisions of the Public Utility Holding Company Act of 1935 should not prove difficult and earnings will be affected but little in the process. 1940 dividend payments are likely to approximate 1939 distributions of $1.85 a share. These shares are worthy of inclusion in a well rounded portfolio for both income and possible moderate longer term appreciation.

Yale & Towne Mfg. Co.

Bought 120 shares of Yale & Towne in 1938 at 36¾. Although showing for nine months of 1939 was vast improvement over same 1938 period and business outlook much better, action of shares recently has been disappointing. To what factors do you attribute this apparent lack of response to favorable developments? What do your security analysts think of 1940 prospects?—M. N. D., Dedham, Mass.

Yale & Towne Mfg. Co. is one of the leading domestic producers of builders' locks and hardware and also produces a varied line of industrial items, such as electric trucks, chain blocks, pumps and related products. From a sales viewpoint the first named division is by far the largest, but profit margins on this type of business are narrower than on materials handling equipment. Overseas operations have accounted for about 25% of total sales in recent years and an even larger proportion of earnings. Competition in the building supply field is exceptionally keen and operating results are relatively unstable. Activities were unprofitable in the three years ended with 1932. Betterment then set in and consecutive yearly gains were scored through 1937, when net income equal to $2.72 per common share was reported. Earnings were sharply off last year to the equivalent of only 14 cents a share. Working capital is adequate and capitalization is simple, being comprised solely of 486,656 common shares. An exceptionally good third quarter, when 46 cents a share was earned, aided considerably in lifting nine months results to 48 cents a share from a deficit of 66 cents a share in the similar year earlier interval. Around $1.25 a share may be reported for all of 1939. The outlook for the building industry is somewhat uncertain for 1940 but sales of hardware items may be not much changed from last year's results. However, demand for industrial units should be further increased granting a continuance of current high levels of business activity. Foreign business will no doubt be affected to some extent by the war. At this time it is rather difficult to attempt to predict the trend of earnings but we feel that continued satisfactory operating results are in prospect. Dividend payments are likely to remain fairly liberal in relation to reported earnings. Uncertainty as to the trend of profits is the chief hindrance to a more favorable market performance. Nevertheless, satisfactory earning power has been demonstrated in periods of prosperity and with only a slight recession in business activity anticipated over early months, we would suggest maintenance of current speculative commitments.

Climax Molybdenum

Although I now show a slight profit on 75 shares of Climax Molybdenum bought at 45¼, should I continue to hold for further appreciation? Do your security analysts regard the near term for this stock favorably enough to warrant purchase of additional shares? Is sharp rise in foreign business likely to continue into 1940?—J. B., Brooklyn, N. Y.

Reflecting the continued high level of sales abroad for the first nine months of 1939, earnings of Climax Molybdenum were equal to $2.25 per share as against $2.09 per share in the similar period last year. The concern occupies a dominant position in the alloys trade and normally produces about 70% of world output of molybdenum and has blocked reserves equal to about 35 years' supply at approximate current levels of production, with the possibility that additional ore may be developed in the future. The most important outlets are the steel, chemical and construction fields. More efficient operations in recent years have made for a better profit margin. Molybdenum is finding wider uses from year to year and as a result of success in broadening the market for the metal, sales and earnings have increased in each year from 1932 through 1938, and recent estimates place results for 1939 at approximately $4.00 per share, which would compare with $3.12 per share in 1938. However, growth was relatively greater in Europe because of heavy armament activity from that Continent, particularly in Germany

and Russia. Normally about two-thirds or more of Climax's production is sold abroad. Foreign sales in the first ten months of 1939 were somewhat in excess of total 1938 production, with more than half of these exports going to Russia and Japan. Recently the State Department has extended its "moral embargo" on nations bombing civilian populations to include molybdenum and it is thus likely that foreign sales of Climax over the immediate future may suffer quite appreciably. Nevertheless, with control of the world's main source of supply and the increasing use of molybdenum for industrial purposes, a constructive attitude can easily be taken to the longer term future of the company. Finances have been maintained in a very satisfactory position. Capitalization is simple, common stock outstanding in the amount of 2,520,000 shares having sole claim on assets and earnings. Due to the near-term uncertainty in sales, it is problematical whether dividends in 1940 will equal the total of $3.20 per share paid in 1938. However, as pointed out above, the longer term future of the company is encouraging and we would be inclined to recommend retention of your present holdings, though we would not advise additional purchases at this time.

Collins & Aikman Corp.

How dependent are Collins & Aikman's 1940 earnings on auto output? I have heard that over 20% of their textiles are now being taken by the furniture industry and that increasing business from this source has been booked. Do you think well enough of company's prospects to advise holding 100 shares purchased at 52¾?—Mrs. C. N. W., Bridgeport, Conn.

Collins & Aikman Corp., the dominant factor in the production of pile fabrics such as velvets, velours and mohairs, supplies about 75% of the automotive industry's demand for this type of fabric. The large automobile manufacturers account for about 65% of total output, the furniture trade taking approximately 30% and the remainder being apportioned largely to the women's wear field. Fortunes of the concern depend primarily upon automobile production. Accordingly, earnings are given to rather sharp year-to-year fluctuations. A loss of 8 cents per common share in the fiscal year ended February 28, 1935, became a profit of $8.43 a share two years later. A sharp falling off occurred in the 1937 fiscal term when $3.85 a share was reported and a further decline to $1.71 a share was witnessed in the most recent accounting year. At last reports, working capital position was satisfactory. There is no funded debt and capitalization consists of 44,329 shares of $5 preferred stock and 562,800 shares of common stock. In the nine months ended November 25th last, net was up sharply to the equal of $2.23 a share as against only 34 cents a share in the corresponding year earlier interval. At this time, estimates are being made that results for the term soon to be completed may approximate $3.50 a share. Profit margins are thought to have been relatively well maintained and with both the automobile and furniture trades expected to continue relatively active for some months to come, earnings are likely to remain at highly satisfactory levels over the stretch ahead. Increased dividend payments are possible later in the current year. In view of the comparatively favorable operating outlook at this time, we would endorse continued speculative retention of the shares.

Youngstown Sheet & Tube

Please give me your latest opinion of Youngstown Sheet & Tube common. Is this company now operating on a full schedule? Are earnings continuing to show improvement? Do you believe the common stock might appreciate to my purchase price of 67¾ in 1940? Now holding 50 shares at that price. What do you advise?—G. M., Syosset, L. I.

Ranking as the sixth largest steel producer in this country, Youngstown Sheet & Tube is in an excellent position to benefit from continued satisfactory levels of activity in the steel industry which, over coming months, are expected to be only moderately below those currently prevailing. The concern reported earnings of 41 cents per share for the first nine months of 1939, comparing with a deficit of 82 cents per share in the like period last year. Fourth quarter operations have been at near capacity, and results for the full year are expected to approximate $3.00 per share, against a deficit of 89 cents per share for 1938. During recent years, the company has considerably diversified its output and as a result of expansion in the flat rolled sheet and strip divisions, these now account for about 43% of finished products capacity. Pipe and tubes account for about 28% of output, the balance being accounted for, in order of importance, by bars, plates, wire products, structural shapes and ties. Chief customers are the automobile, oil and gas, building, railroad equipment and container industries. Earnings are cyclical, which is characteristic of the industry as a whole, but results over coming months are expected to be at satisfactory levels since no serious letdown in activity in the steel industry is expected soon, though an early end to the war in Europe, which has stimulated the industry considerably, could have temporarily adverse effects. Finances have been consistently maintained in a strong position and working capital is ample. Capitalization consists of funded debt outstanding in the amount of $87,000,000, followed by 150,000 shares of $5.50 cumulative preferred and 1,675,008 shares of common stock. Dividends have necessarily fluctuated in line with earnings but the outlook at this time leads to the belief that resumption of disbursements on the common stock may not be long delayed. With all indications pointing toward a good level of sales and earnings for the next few months, at least, retention of your holdings is believed advisable with a view toward the appreciation possibilities which the shares possess.

Ten Market Leaders

(Continued from page 399)

is possible as a result of the already mentioned betterment in the company's tractor division.

Exports of farm implements have been declining since 1929, which is largely explicable in terms of lack of foreign exchange by potential buyers such as Italy, Germany and other countries. These nations in turn have been unable to obtain adequate exports. More recently, of course, the outbreak of war has accentuated this condition, but from here on war purchases by Allied nations are likely to more than take up the slack. In addition the war improves the

company's export business to neutrals, since much competition has been eliminated. A conservative financial policy has led to maintenance of large reserves. The outlook for the coming year appears good with a rapid gain in earnings possible. The stock is subject to wide cyclical swings, its 1937 top having been nearly double the price at which it has recently been selling.

Examining the Base for Sustained 1940 Recovery

(Continued from page 394)

second half year business, especially if the stimulus coincided with a domestic political trend regarded as favorable by investors and business men. But, unfortunately, an intensification or spread of the war, would tend to aggravate our domestic political uncertainties.

Peace by spring or early summer would no doubt bring reaction in some industries but in relation to the second half year and the longer prospect would be the most bullish thing that could happen.

All of which boils down to the conclusion that beyond the spring the 1940 economic outlook is verily on the lap of the Gods.

What of Consumer Buying Power?

(Continued from page 401)

rising levels is removed. Unfortunately, this theoretical advantage is accompanied by some very practical handicaps. In the first place, it imposes upon every manufacturer the necessity of getting aboard a commodity rise in its very earliest stages if he is to preserve any part of his profit margins. It obliges him to help along the early part of each speculative bulge. And in the second place, the theory of holding down finished goods prices by artificial means makes no allowance for the necessity of business as usual in this country, regardless of what happens to international price levels. We have not reached the point where profits can be eliminated from business without also eliminating industry itself, its wages and taxes.

The threat of some such effort is so far very remote, not only for political reasons but because of the eminently healthy relationship already outlined—a relationship which has held the increase in purchasing power fully up to the pace of the increase in salaries and wages. If the war should be greatly prolonged, its influence on all basic commodities would work for higher finished goods prices, but even in that case the damage to be feared would be in the form of the sharp, sudden rises which have caused trouble on past occasions. Continuation of present trends will be the best possible assurance that consumer buying power is to continue one of the brightest spots in the domestic picture.

Corporate Casualties of the War

(Continued from page 429)

of complicating factors. Until these are clearer, the market action of the shares can hardly be expected to be impressive.

National Cash Register, with about half of its revenues derived from the sale of cash registers and accounting machines in foreign markets, naturally reacted unfavorably to the declaration of war in Europe. And the stock slumped sharply to a low some 50% under the top price for the year. The company has, however, made strenuous efforts to counter the effects of the war. Within two days after hostilities began sweeping reductions were made in current and controllable expenses. Salaries were cut on a sliding scale from the top executives on down, advertising outlays were curtailed, and engineering expenses were reduced. The total savings thus instituted equal approximately $800,000 or one-third of the total profit for 1938. The English market is the most important of the company's outlets, and cash registers are shipped from National's Canadian plants. Naturally the sales of these machines to French and English concerns will be curtailed by the war, and such profits as are made will be subject to the usual exchange restrictions and increased taxes that affect all companies in a like position. This drop will be counter-

balanced to some degree by an expected increase in the sales of accounting machines to the Allied Governments for use in connection with the tabulation made necessary by war purchases and expenditures. Domestic business has held up well, and since the sale of the company's products moves with the general trend, further increases are expected. The actual properties in foreign countries have been set up as investments on the books and reserves pledged against them, so that surplus will not be pared as a result of the conflict. Though the stock will largely move with the domestic picture, the conduct of the war will naturally exercise a speculative influence on the prospects of the company. Dividends are expected to be maintained as far as they are earned since the financial position is strong, but of course they will reflect the drop in revenues.

A review of the six companies treated in this discussion shows that two of them, International Telephone and American Metal, are to a major extent affected by the war, while earnings of the rest will be helped by the upswing in domestic business. Of this latter group National Cash Register derives the greatest portion of its revenues abroad, while Loew's and Woolworth are expected to lose about the same percentage. International Nickel is in a class by itself with sales volume expanding, but with profits subject to the levies of the Canadian Government.

Happening in Washington

(Continued from page 405)

T. V. A. is facing a stiff fight over its acounting methods and claims of a profit, and will be attacked from some formerly friendly quarters because of tax revenues lost to towns and counties where it has bought out private utilities. Some T. V. A. supporters say it would go out of business if forced to pay same taxes as private utilities, which increases general distrust of the "yardstick" idea and gives more strength to the move to revise T. V. A. cost allocations.

Administrative law bill (Logan-Walter) to make New Deal agencies follow uniform pattern of semi-judicial procedure will be pressed in Congress and has good chance of passage, though administration will fight it and is trying to postpone action until a substitute is drafted by a committee headed by New Deal lawyers—which probably won't report for months.

Allied purchasing methods in U. S. are surounded by considerable mystery, probably unnecessarily so, but object is to be courteous to all but to buy only what and when needed and from reliable suppliers at best possible prices. Two former federal officials, high in Democratic party, one with Cabinet and Diplomatic service, apparently are trying to use their influence to become intermediaries and collect agents' commissions. Wise business advisers are telling manufacturers to keep all deals on a strict business-as-usual basis no matter whom they contact, to avoid any appearance of scandal.

Chain store tax advocates have House leaders on a spot. They were promised a hearing in January when it was thought this could be run in with general tax revision hearings and snowed under, but if there is no general revenue bill the chain store hearings will be very conspicuous the Ways & Means committee may not be able to avoid a vote and its political consequences.

U. S. H. A. is using many political tricks to get Congressional approval of its pending and bitterly-fought bill to double its authorization for subsidized housing. As a sop to farm Congressmen the bill would allocate funds for rural slum clearance, and to call attention to this U. S. H. A. is stretching its present authority to make a demonstration of subsidizing construction and rental of farm tenant houses on a plan which rural experts say is impractical and if applied widely would result in huge losses to the government.

DIVIDENDS RECENTLY DECLARED

Company	Am't	Rate	Date of Record	Date Payable
Air Reduction	$ .25	Q	12/30	1/15
American Can	1.00	Q	1/25	2/15
American Furniture 7% Pfd	1.75	Q	1/13	1/15
Bangor Hydro-Elec.	.30	—	1/10	2/ 1
Bom Ami "A" Pfd	1.00	Q	1/15	1/31
Bon Ami "B" Pfd	.62½	Q	1/15	1/31
Boston Edison	2.00	Q	1/10	2/ 1
Calumet Hecla	.25	—	1/ 2	1/16
Campbell, Wyant & Cannon	.40	—	1/ 5	1/26
Caroline, Clinchfield & Ohio	1.25	Q	1/10	1/20
Central P & L 7% Pfd	1.75	Q	1/15	2/ 1
Central P & L 6% Pfd	1.50	Q	1/15	2/ 1
Detroit Edison	2.00	—	12/29	1/15
Dominion Bank (Canada)	2.50	Q	1/20	2/ 1
Dow Chemical	.75	—	2/ 1	2/15
Electric Bond & Share 6% Pfd	1.50	Q	1/ 5	2/ 1
Electric Bond & Share 5% Pfd	1.25	Q	1/ 5	2/ 1
Federated Dept. Stores	.50	—	1/20	1/30
Gardner-Denver	.25	Q	1/10	1/20
General Mills	.87½	Q	1/10	2/ 1

Company	Am't	Rate	Date of Record	Date Payable
Hollinger Cons. Gold Mines	.05	M	1/15	1/[illegible]
Holly Sugar 7% Pfd	1.75	Q	1/15	2/ 1
Imperial Bank of Canada (Toronto)	2.50	Q	12/30	2/ 1
Joplin Water Works 6% Pfd	1.50	Q	1/ 2	1/15
Katz Drug	.12½	—	2/29	3/15
Krueger Brewing	.12½	—	1/ 9	1/16
Lerner Stores	.50	Q	1/ 3	1/15
Loose-Wiles Biscuit	.25	Q	1/18	2/ 1
McGraw Elec.	.25	Q	1/16	2/ 1
Montana Power 6% Pfd	1.50	Q	1/12	2/ 1
Morell (John)	.50	—	12/30	1/25
Natural Battery	.75	—	1/25	1/31
Neisner Bros. 4¾% Pfd	1.18¾	Q	1/15	2/ 1
Oliver United Filters "A"	.50	Q	1/20	2/ 1
Pacific Lighting	.75	Q	1/20	2/15
Rice Stix	.50	—	1/ 8	1/23
Thatcher Mfg Pfd	.90	Q	1/ 3	2/15
Woodall Ind	.10	—	1/20	1/30

All declarations on the common stock unless otherwise stated. Q—Quarterly. M—Monthly.

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